1979 Annual Report

ITT

On the cover: This year's annual report is dedicated to the men and women who contribute each day to ITT's success—the management team who will guide our company through the challenges of the 1980s, and the young managers now entering the decision-making process to direct the Corporation in the decades beyond.

International Telephone and Telegraph Corporation is engaged principally in the businesses of Telecommunications and Electronics, Engineered Products, Consumer Products and Services, Natural Resources, and Insurance and Finance. ITT, a U.S.-based company incorporated in the state of Delaware, maintains manufacturing or sales operations in more than 80 countries.

The Annual Meeting of shareholders will be held Wednesday, May 14, 1980 at 10:30 a.m. local time in McCormick Place, Chicago, Illinois.

World Headquarters

International Telephone
and Telegraph Corporation
320 Park Avenue
New York, N.Y. 10022
Telephone 212-752-6000

Form 10-K Report

The Annual Report to the Securities and Exchange Commission on Form 10-K is available to shareholders upon written request to the Secretary of the Corporation.

1979 Annual Report

The ITT Annual Report is published in English, Arabic, French, German, Japanese and Spanish. Copies and taped highlights in English are available upon request to the Department of Corporate Relations and Advertising.

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Highlights†

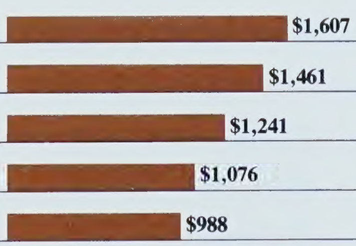
Dollar amounts in thousands except per share	1979	1978	Percent Change
Sales and Revenues	$ 17,197,423	$ 15,261,178	+12.7
Insurance and Finance Revenues	$ 4,798,600	$ 4,137,524	+16.0
Net Income	$ 380,685*	$ 661,807	−42.5
Per Common Equivalent Share	$ 2.65*	$ 4.66	−43.1
Fully Diluted Basis	$ 2.59*	$ 4.49	−42.3
Average Common Equivalent Shares	138,132,000	141,476,000	− 2.4
Dividends Declared per Common Share	$ 2.25	$ 2.05	+ 9.8
Stockholders' Equity	$ 5,621,157*	$ 5,506,816	+ 2.1
Per Common Share	$34.28*	$33.87	+ 1.2
Gross Plant Additions	$ 1,049,354	$ 940,733	+11.5
Depreciation	$ 472,033	$ 439,372	+ 7.4
R & D Expenditures	$ 959,000	$ 799,000	+20.0
Number of Stockholders of Record	219,000	223,000	− 1.8
Number of Employees	368,000	379,000	− 2.9
Orders on Hand (Manufacturing)	$ 7,733,000	$ 6,557,000	+17.9

†Including insurance and finance activities.

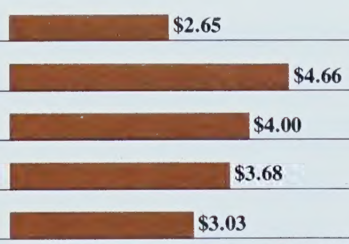
*After deducting a $320 million special provision for close-down of a Canadian pulp mill ($2.32 per common equivalent share).

Sales and Revenues
Billions of Dollars

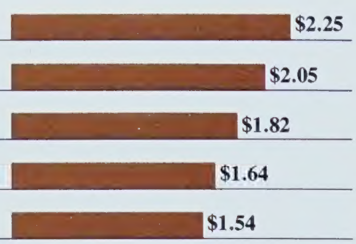
Operating Income
Millions of Dollars



Income per Share Before Extraordinary Items
Dollars



Dividends Declared per Common Share
Dollars



Fellow Shareholders:

Nineteen-hundred and seventy-nine was a difficult but exciting year for your company. It was a period in which your management and board of directors made critical decisions to ensure growth and profitability momentum. These decisions will result in a stronger company not only in 1980 but for the decade ahead:

- *The implementation of high-level management changes. These have positioned the generation of executives who will direct ITT in the '80s.*
- *The closing of the Rayonier pulp mill in Quebec. Since it opened in 1974, this mill had failed to achieve acceptable results and had sustained pre-tax operating losses amounting to \$36 million and \$45 million in 1977 and 1978, respectively. The closing required a one-time special charge of \$320 million, equal to \$2.32 per share, against net income.*
- *The reorganization of our consumer electronics operations in Europe.*
- *The acceleration of investment in System 12™, ITT's digital telecommunications technology, and the restructuring of our telecommunications units to prepare them for the requirements of this new technology.*

The one-time special charge for the Quebec mill, along with the costs of restructuring and development programs, combined to reduce full-year 1979 net income to \$2.65 per common equivalent share, compared with \$4.66 per share in 1978. These charges also adversely affected other performance measurements such as return on stockholders' equity and the debt/equity ratio.

Strong Operating Performance

In 1979 sales and revenues set a new record of \$22 billion, an increase of 13% over 1978. All five of our major business groups and all but one of our 13 business segments reported record sales and revenues, with orders on hand reaching a record of \$7.7 billion at year end.

Nine of our business segments reported the highest income in the last five years: telecommunications operations, defense and avionics systems, industrial products, components and semiconductors, timber and earth products, energy products, casualty and life insurance, finance, and the hotels and other products segment.

Three business segments reported income below 1978 levels. The automotive products segment reflected a general softness in the industry. The food products segment had lower income as the result of higher ingredient, energy and labor costs and new product development. The telecommunications equipment segment absorbed major continuing investments in new technology as well as the costs of restructuring, while experiencing lower margins in certain markets.

One segment, consumer appliances, reported a significantly larger loss in 1979 than in 1978. Management has been strengthened, marketing has been redirected, selected operations are being sold or closed, and production is being consolidated in single large plants in France, the United Kingdom and West Germany. We expect a marked improvement in this segment over the next two years.

Strong operating performance in almost every area of our business provides the basis for our confidence in ITT's present and future.

Therefore, for the sixteenth consecutive year, the board of directors authorized an increase in the quarterly dividend on ITT common stock to a new equivalent annual rate of \$2.40 per share from \$2.20 per share in 1978.

In common with other American multinational industrial corporations, ITT continued to feel the impact of foreign currency fluctuations, which reduced earnings by \$102 million or 74¢ per share in 1979, compared with a reduction of \$139 million or 98¢ per share in 1978.

Our Management Team

As a large, diversified and multinational corporation, ITT is and must be flexible and creative in its thinking. The rate and volume of political, social and economic change require constant reevaluation of our business strategies.

During the past eight months, we organized our management team to take full advantage of our management echelons.

Business Groups	Sales and Revenues 1979 Millions of Dollars	Capital Expenditures 1979 Millions of Dollars	Manpower 1979
Telecommunications & Electronics	\$6,307	\$358	160,000
Engineered Products	\$5,832	\$238	98,000
Consumer Products & Services	\$3,730	\$204	68,000
Natural Resources	\$1,328	\$211	15,000
Insurance & Finance	\$4,799	\$25	27,000

Senior executive vice presidents Richard E. Bennett (engineered products, natural resources, and consumer products and services) and James V. Lester (telecommunications and electronics, and insurance and finance) are now responsible for all operating aspects of our businesses. Each directs a strong group of senior executives worldwide who have the experience, dedication, skills and achievement records required to continue meeting the challenges that face the Corporation. Many of these senior executives appear on the following pages of this report.

Our senior staff and the 250 profit center managers, who are the core of our management, represent the key to our future and receive our full support. At the same time, we continue to identify and develop the young new managers who will follow them.

Divestitures and Acquisitions

In the process of configuring the company, we have sold 20 units from January 1, 1979 to date. These companies, which had aggregate sales of $349 million, were sold because they no longer fit our long-term strategic growth and development plans. These divestitures yielded proceeds of $113 million, including an after-tax gain of $20 million. The sale of these companies provides management with the opportunity to concentrate resources in areas of greater potential.

During the same period, we acquired 10 companies, with sales of $166 million, which complement existing product and business lines in growth areas. These acquisitions will ensure that ITT's management skills and capital are employed to achieve better returns on our shareholders' investment.

Energy

In response to the energy crisis, we continue to improve on programs started several years ago. *As a result, ITT and its worldwide units reduced energy consumption during 1979 by one trillion Btu.*

Various units have converted processes to use alternative energy sources, and Rayonier is now meeting 67% of its total energy requirements by utilizing wood wastes and the residue of its pulping process.

Beyond such conservation efforts, ITT is contributing to longer-term solutions by developing more energy-efficient products. Those available now from our subsidiaries include equipment from ITT Barton Instruments that measures, monitors and controls gases and liquids in pipelines and in land-based and offshore production; computerized supervisory control centers from ITT Controls that provide efficient energy utilization for complete buildings; and lightweight automotive components from Alfred Teves and other subsidiaries that improve fuel mileage.

Research and Development

Essential to ITT's future is its continued leadership in technology. In the past five years, $3.4 billion has been invested in research, development and engineering. In 1979 alone, ITT spent $436 million and also undertook an additional $523 million in customer-funded research, development and engineering programs. In 1980 more than $1 billion will be invested, approximately half of which will be ITT funds. While some of this investment will bring near-term benefits, much of it will take years to bring the resulting products and services to world markets; but we must pursue all of these programs if we are to retain and enhance our competitive position in products and technology.

ITT into the '80s

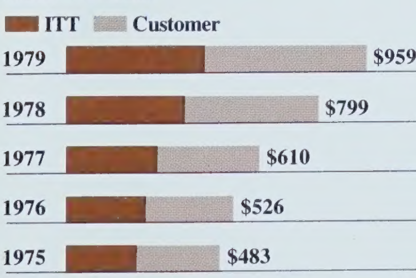
In the next 10 years, driven by market demands and the needs for efficiency and energy conservation, our historic telecommunications business could grow fourfold. Developments such as System 12, distributed processing networks, intelligent terminals and fiber-optic transmission will proliferate. ITT will remain a world leader in telecommunications and expand its base in the United States.

In February 1980, we entered into an agreement to supply the American Telephone and Telegraph Company with up to $2 billion of ITT telecommunications products or services over the next 10 years. AT&T will also provide engineering and systems support personnel to help adapt our 1240 digital switching system for possible use by the Bell System. We believe that this agreement marks an important new recognition of our telecommunications technology and a strong endorsement of our System 12.

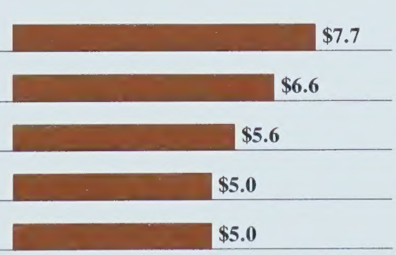
Overseas, orders have been received from administrations in Belgium, Denmark, Italy, Spain, Taiwan and West Germany. Proposals for System 12 exchanges are currently under evaluation in 17 countries.

Also important is our participation in the growth of the United Telephone System through the installation of ITT North's digital equipment.

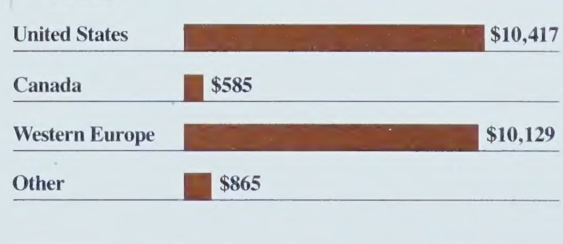
Research and Development
Millions of Dollars



Orders on Hand
Billions of Dollars



Sales and Revenues by Geographical Area 1979
Billions of Dollars
MILLIONS



Exchanges have been installed for United in eight states. At year end, some 157 exchanges were installed or on order from customers in the United States.

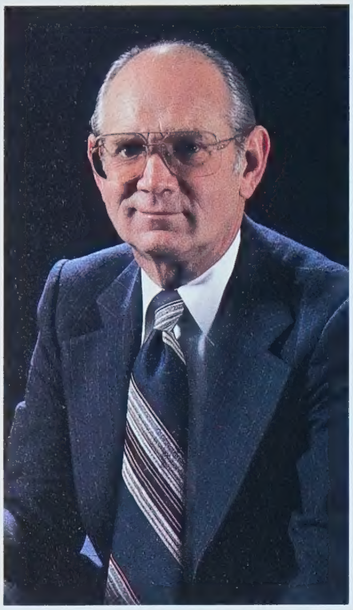
In 1980 we will continue our efforts to become a substantially more important supplier of telecommunications equipment to General Telephone & Electronics Corp., in accordance with an agreement signed in late 1978.

Demand for new automotive products, large-scale integrated circuits and other semiconductors, fluid handling systems, and a wide range of electronic components presents many growth possibilities for ITT's engineered products. As in the case of telecommunications, ITT is in a leading position in this area of rapidly changing technology.

Expansion of our insurance and finance businesses, both within and beyond their present North American and European markets, may see them tripling in size by the end of the decade.

A similar potential exists for the consumer products and services group with the growth of hotels, food products and garden products, among others.

We will build on our present natural resources base and examine new mineral development possibilities to meet our goals in this business over the next 10 years.



Richard E. Bennett
Senior Executive Vice President

James V. Lester
Senior Executive Vice President

Overall, ITT today has the products, programs, people and resources to bring about these results and, most important, to improve profitability in each of our five major businesses.

In 1979 our capital expenditures reached an all-time high of $1.05 billion. We expect to maintain this level of investment during 1980.

Responsive to the trade needs of the United States as well as the many other countries in which we operate, ITT subsidiaries worldwide continue to contribute substantially to their nations' balance of trade by increasing exports of numerous products and services. Last year, leaders in this regard were our companies in Belgium, Canada, England, France, Italy, Spain, the United States and West Germany, which together achieved export sales of $2.7 billion.

We are entering this decade with new thinking, but basically we want ITT to continue as a strong, well managed, profitable, responsible and responsive corporation.

Despite uncertainties in the economy, as we look to 1980 our confidence is high, influenced partially by the long-term effects of actions taken in 1979.

This year we expect record earnings, accompanied by increased sales and a strengthened balance sheet.

Board of Directors

We could not have reached our present level of success without the leadership of Harold S. Geneen, who has retired as chairman but continues on our board as chairman emeritus. For 20 years he was the driving force behind ITT and we are deeply thankful to him for all he has done. Similarly, we wish to thank two Corporate directors who are leaving our board: Francis J. Dunleavy, who retired last year as vice chairman, and Raymond L. Brittenham, senior vice president—law and counsel.

At its February 1980 meeting, the board of directors elected to its membership M. Cabell Woodward, Jr., executive vice president and chief financial officer.

The members of our board are identified on page 48 along with the committees on which each member serves. During the latter part of 1979, these committees were reorganized and a public affairs committee of the board was established. Creation of this committee is the board's reaffirmation of management's commitment that ITT be, and be recognized as, a company of integrity.

We sincerely appreciate the dedication of our 368,000 employees around the world and we value our shareholders, customers and suppliers for their continued support. Our performance in the past will help us to achieve more ambitious goals in the years ahead.

Sincerely,

Rand V Araskog

Rand V. Araskog
Chairman, President and
Chief Executive
March 12, 1980

Operations Review

In 1979 sales and revenues set a new record of $22 billion, an increase of 13% over 1978. All five of our major business groups and all but one of our 13 business segments reported record sales and revenues, with orders on hand reaching a record of $7.7 billion at year end.

Strong operating performance in almost every area of our business provides the basis for our confidence in ITT's present and future.

Millions of Dollars	1979	1978	1977	1976	1975
Sales and Revenues	$6,307	$5,640	$4,656	$4,110	$4,048
Income	215	277	239	220	242

A new record of $6.3 billion in sales and revenues was set in 1979 by ITT's largest business group. Income of $215 million, however, was below 1978, as the equipment segment continued to absorb the costs of ITT's ongoing investments in digital technology.

The telecommunications operations companies reported revenues of $292 million and income of $60 million, and the defense and avionics units had sales of $673 million and income of $22 million—new records for both segments.

Telecommunications Equipment

The 1980s will witness unprecedented worldwide expansion of telecommunications and electronics—areas in which ITT is an acknowledged leader.

The new System 12™ digital telephone exchanges have gained wide acceptance and ITT has received initial orders for the world's first all-digital telephones, to be used with System 12 in Denmark. These products are part of ITT's network of the future, known as Network 2000™.

ITT is by far the largest supplier outside the United States of advanced types of electronic analog telephone exchanges. At the end of last year some four million local and toll equivalent lines of ITT's Metaconta™ and other electronic exchanges were in service in 25 countries, with another 4.6 million lines on order. Latest versions of Metaconta exchanges were installed in Belgium, France, Hong Kong and South Korea.

ITT continued as a leading supplier of fiber-optic products to the U.S. military. Fourteen systems were installed for U.S. telephone companies and for electric utilities where they provide interference-free service in power substations, a very noisy and hazardous environment. Standard Telephones and Cables Ltd. (STC) will build 12 systems for the British Post Office, and ITT's Standard Eléctrica S.A. (SESA) will build a system for the Spanish Railway. West Germany's Standard Elektrik Lorenz (SEL) will install systems in Berlin and Stuttgart.

In the U.S. subscriber telephone set market, the fastest-growing segment of the industry, ITT supplied nearly three million units during 1979, including repertory dial telephones for the rapidly growing retail market.

ITT's business systems and communications group achieved record orders for private automatic branch exchanges. The new computer-controlled "Unimat" electronic PABX is enjoying wide acceptance. ITT Courier Terminal Systems installed its 100,000th data terminal.

Qume Corporation introduced a unique wide-carriage character printer for processing financial data, and a line of fast, high-density, flexible double-sided disk memories for word processors and small computer systems.

In undersea cable technology, STC received a $62 million order for more than 2,800 nautical miles of cable for the TAT-7 transatlantic network and will build the first Indian Ocean cable system.

ITT's Norwegian subsidiary, Standard Telefon og Kabelfabrik A/S, last year manufactured the first undersea high-voltage power cable for Africa and received a joint contract with an Italian company to supply and install the first super-high-voltage submarine cable system between the Canadian mainland and Vancouver Island.

Telecommunications Operations

This segment's companies, led by ITT World Communications Inc., extended their record, voice and data communications services into broader markets and inaugurated several services.

City-Call℠ service offers savings of up to 40% on long-distance calls between more than 88 cities in the United States. The MARSPLUS℠ service links travel agents to reservations computers of participating airlines. Similar services are planned for hotels, car rental agencies and cruise lines. FAX-PAK® service now provides a nationwide network linking previously incompatible facsimile terminals.

Defense and Avionics Systems

Last year, ITT Defense Communications Division began upgrading the network of video-data communications terminals for the U.S. Air Force Strategic Air Command, and increased the capacity and efficiency of the major message switching system that links U.S. embassies with the Department of State in Washington, D.C.

The Avionics Division began to modernize the U.S. Vortac radio navigation system involving 830 locations.

ITT Gilfillan was awarded major contracts to provide air surveillance and aircraft landing radar to the U.S. Department of Defense and a number of foreign governments.

Seated, left to right: Sir Kenneth Corfield, chairman and chief executive, STC; John W. Guilfoyle, ITT senior vice president, and president of ITT Europe, Inc. Standing, left to right: Martin E. Karp, ITT vice president and group executive-business systems and communications; Manuel Márquez Balín, chairman, president and managing director, SESA; Helmut Lohr, managing director, and general manager of telecommunications group, SEL; George F. Knapp, ITT vice president and group executive-communications operations group.

Engineered Products

Millions of Dollars	1979	1978	1977	1976	1975
Sales	$5,832	$4,978	$4,347	$3,860	$3,469
Income	212	177	165	128	90

The engineered products group is one of ITT's most diversified operations, spanning more than 80 companies worldwide and serving the automotive, fluid handling, process control, instrumentation, construction, energy, chemical and electronics markets.

Last year the group increased sales 17% over 1978 to reach $5.8 billion and achieved record income of $212 million.

Two of the group's three business segments reported new highs in both sales and income. Industrial products reported $3 billion in sales and $74 million in income, and the components and semiconductors segment turned in $1.2 billion in sales and $71 million in income. Although the automotive segment sales rose to $1.7 billion, a general softness in the automotive industry depressed that segment's income to $67 million, 24% below the record year of 1978.

Automotive Operations

This segment's 14 manufacturing and service companies, with 76 plants around the globe, supply not only the leading automotive manufacturers in Europe and North America but also the worldwide parts-replacement aftermarket.

West German-based Alfred Teves GmbH, with subsidiaries in Europe, North America, Brazil and South Africa, is the world's leading independent producer of disc brakes and a technological leader in hydraulic braking systems. Last year, Teves expanded its product base with the introduction of impact resistant, lightweight bumpers for several top-of-the-line European models.

SWF (Spezialfabrik für Autozubehör), in West Germany, is one of Europe's leading manufacturers of window-wiper systems, and fractional horsepower electrical motors and electronic components for automotive and industrial uses. Recently it extended its markets with new central door-locking systems and window lift devices.

Koni, a producer of top-quality adjustable shock absorbers for highway and rail vehicles, last year introduced the first adjustable gas-filled shock absorbers for the automotive aftermarket.

New products from North American units last year included electronically activated keyless entry systems, simulated wire wheel covers, and diesel tubing designed to retain dimensional and pressure integrity while reducing production costs.

Industrial and Commercial Products

Based primarily in North America and Europe, this group of ITT units produces a diversity of products—from pumps and piping to wiring, heating and cooling systems, and instrumentation.

ITT Grinnell, the Corporation's largest manufacturing unit in North America, last year completed extensive plant and foundry modernization, introduced a new line of fittings which achieved record first-year orders, and established a joint venture with a major South Korean company to fabricate pipe for growing Far East markets.

Among ITT's fluid handling companies, one U.S. unit has applied fiber optics to special liquid-level controls and switches, enabling them to be used in hazardous or explosive environments.

Sweden-based Flygt, a worldwide leader in heavy duty submersible pumps, introduced a new series of submersible propeller pumps for flood control, drainage, irrigation, and process water cooling—the first 10 of which were installed in an Austrian steel plant.

ITT Barton's turbine meters, differential pressure units, electronic flow transmitters and other analytical instruments are now used in harsh or extreme processing environments.

Components and Semiconductors

ITT's components and semiconductors operations, located in 10 European countries and in North and South America, have become principal suppliers to electronics markets worldwide.

A pioneer in the development of large-scale integration technology, ITT is also Europe's top producer of semiconductor memories and very-large-scale integrated circuits for telecommunications uses. Technology has advanced from 4,000-bit memories only a few years ago to 64,000-bit random access memories today.

Another growing semiconductor field for ITT is the production of hybrid integrated circuits—tiny modules that include semiconductor chips along with other components.

As the segment's lead components company, ITT Cannon Electric last year established a joint venture with a leading Japanese electronics firm to market electrical connectors and related products in the Far East.

Discussing developments across the 80 companies which comprise the engineered products business group around the world are ITT senior vice presidents Gerard L. Seelig (left) and John J. Chluski. Mr. Seelig is group executive, engineered products–North America and Mr. Chluski is group executive, engineered products–Europe.

Consumer Products and Services

Millions of Dollars	1979	1978	1977	1976	1975
Sales and Revenues	$3,730	$3,600	$3,252	$2,889	$2,912
Income	8	45	18	18	17

During 1979, ITT's consumer products and services group strengthened its competitive position in several of its basic areas—hotels, food products, seeds and lawn care, educational services, publishing and telephone directory sales.

Sales and revenues for the group reached $3.7 billion in 1979, compared with $3.6 billion in 1978. Net income of $8 million, however, was substantially below the $45 million reported in 1978, due to heavy losses in the consumer appliances segment in Europe, which is being restructured to improve its operations and market position.

The group's two other business segments set new sales records, although income for food products was below the 1978 record. Sheraton achieved its most profitable year. Other impressive gains were reported by O.M. Scott, ITT Educational Services, and ITT Gwaltney.

Hotel Operations

During the past year Sheraton opened or added 20 properties to its network of about 400 owned, managed and franchised hotels and inns with 102,000 guest rooms in 42 countries.

New hotels opened or added during 1979 included 10 in North America, three in India, four in Egypt, two in Saudi Arabia and one in Abu Dhabi. Among the more unusual new properties are two hotel cruise ships which sail the Nile between Aswan and Luxor.

Also last year, 27 properties were disposed of, 17 others completed new additions, and extensive renovations continued in other hotels. Currently, there are 88 Sheraton® properties under construction or planned which, when completed, will expand the hotel network into 63 countries.

Average room occupancy at Sheraton's owned, leased and managed properties was more than 78%, the highest level in the company's 43-year history.

Food Products

ITT Continental Baking Company, whose several U.S. divisions comprise the ITT food group, attained another year of record sales. Income fell below 1978 due to higher ingredient, labor and energy costs and new product development.

Continental's bakery division, which produces bread and cake products under the Wonder®, Fresh Horizons®, Home Pride® and Hostess® brand names, undertook an extensive program of plant modernization and expansion that continues into 1980.

ITT Gwaltney is also adding capacity, with a new plant for frankfurter production to open in Virginia in the first half of 1980 and a processing center in North Carolina, to start up in late 1980, which will enable Gwaltney to make premium fresh sausage.

C&C extended its East Coast markets and also achieved a highly successful introduction of its soft drinks in California.

The retort pouch line of entrees marketed by the Continental Kitchens division entered test markets in Atlanta, Columbus and Miami.

Consumer Appliances

Competition and price cutting have intensified in European consumer electronics markets, and ITT's businesses serving those markets reported deepening losses. As a result, ITT announced last year that it was restructuring those operations to strengthen their market position and to trim manufacturing costs. At the same time, ITT is committing considerable managerial, financial and technical resources to support dealer networks for its television and audio equipment.

Among new developments is a standardized color TV chassis to enter production in mid-1980. The two versions of this chassis will serve the complete color TV product line in European and export markets, following the introduction of a new chassis last year in France.

For U.S. markets, ITT is introducing several new products in 1980. Among these are the ULTRA 80™ one-piece electronic phone, with last number redial and push-pull operation, and the uniquely designed Fashionflash™ 110 pocket-camera featuring a hand-fitting shape and fashion colors.

Other Products and Services

ITT World Directories received the largest contract in its history last year. Awarded by the British Post Office, it covers the sale of classified telephone directory advertising in four of six zones, with estimated post office billings of $1 billion over nine years.

The O.M. Scott subsidiary achieved strong growth in 1979, particularly in its retail product line. ITT's base in lawn and garden products was significantly broadened with the acquisition of the W. Atlee Burpee Company, a leading U.S. garden seed firm.

Palm Coast, a residential community along Florida's northeast coast being developed by an ITT subsidiary, added a $3 million shopping center, a marina, and a swim and racquet club in 1979.

Charting the direction of their consumer products and services businesses are (left to right) F. Leon Herron, Jr., chairman, president and chief executive, The O.M. Scott & Sons Company; G. Michael Hostage, president and chief executive, ITT Continental Baking Company; and Howard P. James, chairman, president and chief executive, The Sheraton Corporation.

Natural Resources

Millions of Dollars	1979	1978	1977	1976	1975
Sales	$1,328	$1,043	$ 928	$ 753	$ 559
Income	105	28	43	50	64

Materials produced by ITT's natural resources group include forest products for cloth, paper, plastics and construction; silica sand for making glass, ceramic, and associated products; special clays for both industrial and home products; and oil, gas and coal for the nation's growing energy needs.

Sales for the group in 1979 surpassed a billion dollars for the second year in a row, reaching $1.3 billion, a 27% increase over 1978. Income more than tripled to $105 million.

Both of the group's segments—timber and earth products, and energy products—achieved new records in sales and income. Particularly good performances were turned in by ITT Rayonier, Eason Oil and Carbon Industries. Pennsylvania Glass Sand Corporation achieved its fifth consecutive year of increased income.

Timber and Earth Products

Serious operational problems at the Port Cartier, Quebec pulp mill led to its closing in September and the establishment of a $320 million reserve to cover ITT's investment. This step will improve Rayonier's long-term financial performance by eliminating a major loss operation without negative impact on its product markets. Rayonier remains a leading world producer of dissolving pulp.

Building on its continuing operations, Rayonier last year began a major modernization program for its British Columbia operations. Spanning several years, this program will increase pulp and lumber capacity and provide more efficient conversion of the company's high-quality timber resources.

Last year, Rayonier also began redirecting its production and marketing strategy to further optimize use of its forest raw-material base. Additional steps are being reviewed which will increase tree conversion into lumber, solid-wood products, byproducts and other more profitable uses, while allocating remaining portions to its basic chemical cellulose and paper pulp production.

The subsidiary initiated production of vanillin at its new $12 million plant in Hoquiam, Washington, using a byproduct of the pulping residue from its adjacent pulp mill. A replacement for expensive natural vanilla, vanillin is an important ingredient in foods, a pharmaceutical intermediate, and a fragrance stabilizer.

During the year, Rayonier signed three new licensing agreements for production of Prima® rayon, an improved type of high-performance fiber developed by Rayonier. Avtex, a major U.S. producer of such improved fibers, began producing Avril® Prima rayon during 1979. Licenses were signed in Finland and France, joining licensees already producing Prima in Italy and Spain.

Rayonier's Southern Wood Piedmont unit opened a new $6 million manufacturing and preserving plant at Waverly, Ohio for the processing of railroad crossties.

Pennsylvania Glass Sand topped its 1978 sales and income records. This was a considerable achievement in light of the severe 1978-79 winter and a shortage of railway transport.

This subsidiary is a prime supplier of basic materials used in glass manufacture, oil and gas drilling operations, and agricultural chemicals. It is also taking advantage of the rapidly growing market for oil and grease absorbents.

Energy Products

Eason Oil expanded its participation in oil and gas exploration and production through partnerships in properties in the Gulf of Mexico, and continued its exploration in the U.S. South and Midwest.

Achieving an increase in income last year of about 36%, the ITT unit plans to spend $40 million in 1980 on equipment and exploration programs.

An important development came with the first use last year of Eason's new heavy-duty drilling rig to search out oil and gas-producing strata almost four miles below the earth's surface in Oklahoma. The company maintained its markets in the gathering, compression and liquid processing of gas, and reported increasingly favorable industry reception for its new oil field supply unit.

Carbon Industries reported a significant increase in sales and in income during 1979, producing about three million tons of coal during the year.

As part of its geographic diversification program designed to position it strategically to capitalize on changing market opportunities, Carbon acquired new coal reserves last year in the Midwest and Far West. The unit also continued to expand its entry into markets for steam coal used in electric power generation, complementing its strong position as a supplier of coal for metallurgy.

Focusing on growth plans for their operations within the natural resources business group are Charles E. Anderson (left), chairman and chief executive, ITT Rayonier Inc., and Hale E. Andrews, chairman and president, Pennsylvania Glass Sand Corporation.

Insurance and Finance

Millions of Dollars	1979	1978	1977	1976	1975
Revenues	$4,799	$4,138	$3,542	$3,082	$2,830
Income	349	300	239	192	104

About 11 million individuals and businesses in North America and Western Europe currently are protected by insurance policies, annuities and pensions written by ITT's insurance subsidiaries. Nearly 900,000 families and businesses last year received financial assistance from ITT's commercial and consumer finance subsidiaries in the United States and the Caribbean.

In 1979, both the insurance and the finance business segments again set records in revenues and net income. Total group revenues reached $4.8 billion, and income rose 16% to $349 million.

Casualty and Life Insurance

ITT's casualty and life insurance operations, based in North America and Western Europe and managed by The Hartford Insurance Group, achieved net income of $287 million on revenues of $4.3 billion. As one of the largest operations in the insurance industry, The Hartford last year paid more than $2.1 billion in claims and benefits.

The impact of an industry-wide downturn in property and casualty underwriting results, which began in 1979, was more than offset by rapid earnings growth in life operations and substantial gains in investment income.

Total premium revenues were $3.8 billion in 1979, 12% above the previous year, and total investment income rose 32% to $471 million.

In the United States and Canada, written premiums for property and casualty operations reached $2.6 billion. Reflecting the industry downturn, after-tax adjusted underwriting losses for the United States and Canada were $17 million, compared with a $5.6 million profit in 1978.

Also affecting underwriting results last year were record catastrophe losses for The Hartford in common with the industry. As a result of destruction from hurricanes Frederic and David, The Hartford established hurricane emergency claims offices to provide prompt help to some 7,000 claimants.

Entering the decade of the 1980s, The Hartford is expanding its interests in the growing areas of specialty and surplus insurance as well as broadening its participation in worldwide reinsurance markets. Hartford Management Services provides claims-handling and loss prevention services for firms which are self-insurers or have their own insurance operations.

In support of its continuing loss prevention efforts, The Hartford initiated in 1979 a nationwide loss prevention awards competition. Administered by the National Safety Council, the year-long competition is designed to solicit new ideas for reducing accidents in the nation's workplaces.

Outside the United States and Canada, property and casualty insurance operations—including units in the Netherlands, the United Kingdom and West Germany—reported operating income of $17 million in 1979. Premium revenues rose 27% to $406 million.

Net income from all life, accident and health insurance operations rose 57% to $39 million, on premiums of $893 million.

Commercial and Consumer Finance

ITT's diverse finance operations are headed by ITT Financial Corporation, the ninth largest independent finance company in the United States. Also included in this segment are several units which finance certain ITT product sales. Finance segment revenues in 1979 rose 37% to $518 million, income reached $62 million, and gross receivables reached $3.5 billion.

In commercial finance, ITT Industrial Credit Company provides capital equipment financing and leasing services for companies in diverse industries across the United States, and ended the year with gross receivables and leases of about $750 million. ITT Diversified Credit Corp., which finances inventory for retail dealers of durable goods and provides funds to manufacturers and distributors, has begun financing auto, farm and industrial equipment dealers and reported more than $370 million in gross receivables at year end.

Among consumer finance operations, U.S.-based ITT Consumer Financial Corporation achieved a significant increase in its home equity loans which enable homeowners to capitalize on the increased value of their homes. Through its more than 500 Thorp® and Aetna® offices, this unit had total consumer loans outstanding of about $1.2 billion at year end. Island Finance Corporation, which is the leader in its markets in Puerto Rico and the U.S. Virgin Islands, had loans outstanding in excess of $130 million at the end of 1979.

Reviewing growth objectives for the insurance and finance business group are (left to right) M. Cabell Woodward, Jr., ITT executive vice president and chief financial officer and a member of the board of directors; DeRoy C. Thomas, chairman and president, Hartford Fire Insurance Company; Robert E. Laws, ITT senior vice president and group executive–consumer and industrial finance operations; and John P. Pfann, ITT senior vice president and treasurer, and a Hartford director.

Business Segments—Sales and Income

Sales and Revenues Dollar amounts in millions	**1979**		1978		1977		1976		1975	
Telecommunications and Electronics										
Telecommunications Equipment	**$ 5,342**	**25%**	$ 4,721	24%	$ 3,805	23%	$ 3,366	23%	$ 3,352	23%
Telecommunications Operations	**292**	**1**	265	2	221	1	187	1	173	1
Defense and Avionics Systems	**673**	**3**	654	3	630	4	557	4	523	4
	6,307	**29**	5,640	29	4,656	28	4,110	28	4,048	28
Engineered Products										
Automotive Products	**1,711**	**8**	1,541	8	1,301	8	1,104	7	919	6
Industrial Products	**2,961**	**13**	2,527	13	2,261	13	2,096	14	1,964	14
Components and Semiconductors	**1,160**	**5**	910	5	785	5	660	5	586	4
	5,832	**26**	4,978	26	4,347	26	3,860	26	3,469	24
Consumer Products and Services										
Food Products	**1,743**	**8**	1,702	9	1,551	9	1,422	9	1,416	10
Consumer Appliances	**878**	**4**	922	5	822	5	712	5	690	5
Hotels and Other	**1,109**	**5**	976	5	879	5	755	5	806	6
	3,730	**17**	3,600	19	3,252	19	2,889	19	2,912	21
Natural Resources										
Timber and Earth	**1,088**	**5**	872	4	772	5	722	5	531	4
Energy	**240**	**1**	171	1	156	1	31	—	28	—
	1,328	**6**	1,043	5	928	6	753	5	559	4
Insurance and Finance										
Casualty and Life Insurance	**4,281**	**20**	3,761	19	3,260	19	2,847	19	2,620	18
Finance	**518**	**2**	377	2	282	2	235	2	210	2
	4,799	**22**	4,138	21	3,542	21	3,082	21	2,830	20
Total Segments	**21,996**	**100**	19,399	100	16,725	100	14,694	99	13,818	97
Divestible Operations	**—**	**—**	—	—	—	—	198	1	414	3
Total Sales and Revenues	**$21,996**	**100%**	$19,399	100%	$16,725	100%	$14,892	100%	$14,232	100%

Income Dollar amounts in millions	**1979**		1978		1977		1976		1975	
Telecommunications and Electronics										
Telecommunications Equipment	**$133**	**15%**	$204	25%	$174	25%	$166	27%	$193	37%
Telecommunications Operations	**60**	**7**	59	7	48	7	40	7	38	7
Defense and Avionics Systems	**22**	**2**	14	2	17	2	14	2	11	2
	215	**24**	277	34	239	34	220	36	242	46
Engineered Products										
Automotive Products	**67**	**8**	88	11	74	10	53	9	20	4
Industrial Products	**74**	**8**	51	6	59	8	51	8	58	11
Components and Semiconductors	**71**	**8**	38	4	32	5	24	4	12	2
	212	**24**	177	21	165	23	128	21	90	17
Consumer Products and Services										
Food Products	**25**	**3**	29	4	28	4	18	3	22	4
Consumer Appliances	**(84)**	**(10)**	(11)	(1)	(14)	(2)	6	1	2	—
Hotels and Other	**67**	**8**	27	3	4	1	(6)	(1)	(7)	(1)
	8	**1**	45	6	18	3	18	3	17	3
Natural Resources										
Timber and Earth	**84**	**10**	15	2	29	4	46	7	60	12
Energy	**21**	**2**	13	1	14	2	4	1	4	1
	105	**12**	28	3	43	6	50	8	64	13
Insurance and Finance										
Casualty and Life Insurance	**287**	**32**	249	30	199	28	168	28	88	17
Finance	**62**	**7**	51	6	40	6	24	4	16	3
	349	**39**	300	36	239	34	192	32	104	20
Total Segments	**889**	**100**	827	100	704	100	608	100	517	99
Divestible Operations	**—**	**—**	—	—	—	—	3	—	7	1
	889	**100%**	827	100%	704	100%	611	100%	524	100%
Provision for Close-Down of Canadian Pulp Mill	**(320)**		—		—		—		—	
Unallocated††	**(188)**		(165)		(140)		(122)		(120)	
Total Income	**$381**		$662		$564†		$489†		$404	

†Excludes extraordinary items.
††Principally residual interest and taxes not distributed to segments.

During 1979 ITTcontinued to support long-term programs devoted to the educational, cultural and economic progress of people in the many nations in which the Corporation operates.

Human Development

ITT long has been a conscientious equal opportunity employer, and has implemented both internal and external programs for the advancement of women, minorities and the handicapped.

ITT telecommunications units in Corinth, Mississippi and Raleigh, North Carolina are spearheading special training programs for employing blind persons and the nonverbal deaf, respectively. During the year, ITT produced a new film, "On the Line," which features these programs. The film has received wide acclaim as an effective management training tool and won several awards. Copies have been requested not only by ITTunits but by other major employers as an aid in their efforts to broaden opportunities for handicapped persons.

Similarly, among European efforts, ITT's Bell Telephone Manufacturing subsidiary in Belgium provides employment for some 100 physically or mentally handicapped persons.

The Corporation continues to support numerous public interest groups, including the Retinitis Pigmentosa Foundation, the Asia Foundation, the National Council on Alcoholism, the National Urban League, and the Puerto Rican Legal and Educational Fund.

The ITT-funded program for the development of two low-income villages in South Korea and Nigeria continued in its second year to provide financial as well as educational and civic assistance.

As a signatory company, ITT continues its endorsement and implementation of the Rev. Leon Sullivan's Statement of Principles at its subsidiaries in South Africa.

ITT training programs are committed to the transfer of technology on an international as well as domestic basis. The company has trained some 367,000 non-ITTengineers and technicians in more than 100 locations over the past five years.

Last year, ITT celebrated the tenth anniversary of its automotive products plant in Fayette, Mississippi, which has provided jobs and training for hundreds of minority employees.

Education and Youth Programs

The ITT International Fellowship Program—the largest corporate-sponsored international program for graduate level students—since 1971 has enabled nearly 400 students from 50 countries to pursue graduate studies in the United States and abroad.

ITT has contributed to numerous educational programs for many years. ITT grants in 1979 went to Independent College Funds of America, Inc., representing 571 schools; to ASPIRA of America to help advance educational opportunities among Americans of Hispanic origin; and, for the 27th year, to the United Negro College Fund.

Four colleges were the hosts for ITT's Key Issues Lecture Series during 1979: New York University, the Universities of Virginia and Notre Dame, and Simmons College in Boston. A total of 27 lecture series have taken place since the program began in 1973. The impact of the program reaches far beyond the lecture sites. Published lectures now comprise a library of 20 books, 85,000 copies of which have been sold or distributed to the general public as well as to college, university and business libraries.

Among youth programs, last year an ITT contribution helped create a new center in Harlem that will house an education and sports center for thousands of minority youngsters and their families through the Holcombe Rucker-ITT Community Basketball League.

Broadcasting and the Arts

In its growing role as a corporate underwriter of major cultural exhibits, ITT last year funded the highly-acclaimed "Big Apple" exhibit at the Museum of the City of New York. The show, which traces the city's growth since 1524, will run for five years and is expected to attract four million visitors.

Big Blue Marble®, now in its sixth television season and seen in more than 70 countries, won four Emmys including one for "Most Outstanding Daytime Children's Informational Series."

ITT's nationwide public service radio series, "The American Character," narrated by the Rev. Dr. Norman Vincent Peale, attempts to provide a counterbalance to the current preoccupation with negative aspects of U.S. life. The series already has made an impact beyond its vast audience. "The American Character" and ITT have been honored by the National Conference of Christians and Jews with its national mass media award for "Outstanding Contributions to Better Human Relations and the Cause of Brotherhood," and by the Boy Scouts of America for "Broadcast Service to Youth."

ITT Chairman, President and Chief Executive Rand V. Araskog (left) and author-lecturer Dr. Norman Vincent Peale accepted the Boy Scouts of America award for "Broadcast Service to Youth" given to ITT's radio series "The American Character," which is narrated by Dr. Peale. New Jersey Scout James J. Bederka, Jr., who saved his sister's life, was the subject of one of the broadcasts.

Products and Services

ITT has the products, programs, people and resources to improve profitability in each of our five major businesses.

ITT will remain a world leader in telecommunications and expand its base in the United States.

Demand for new automotive products, large-scale integrated circuits and other semiconductors, fluid handling systems, and a wide range of electronic components presents many growth possibilities for ITT's engineered products.

Expansion of our insurance and finance businesses, both within and beyond their present North American and European markets, may see them tripling in size by the end of the decade.

A similar potential exists for the consumer products and services group.

We will build on our present natural resources base and examine new mineral development possibilities to meet our goals in this business over the next 10 years.

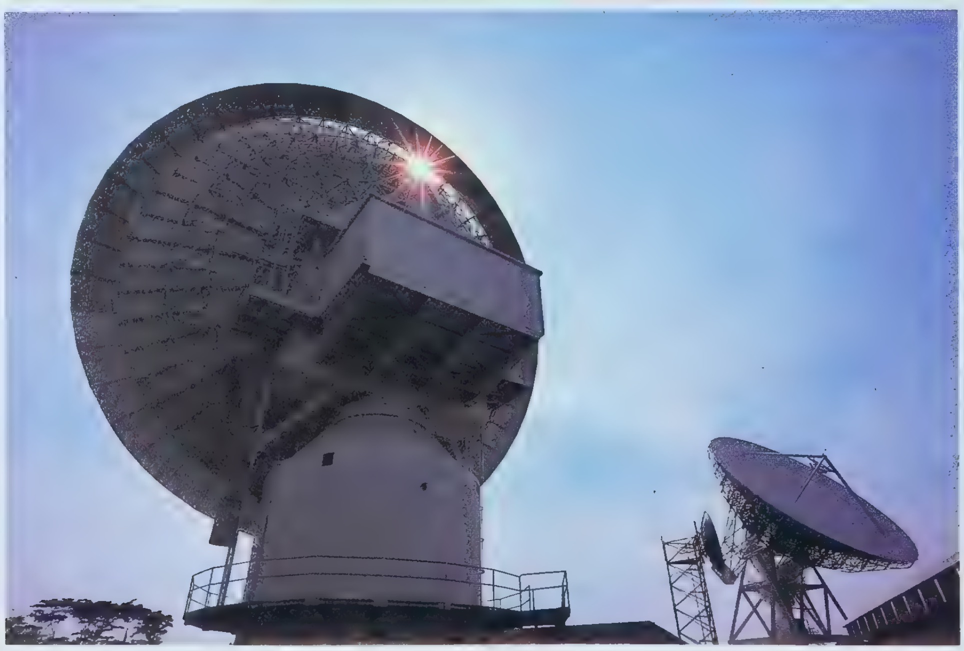
Telecommunications and Electronics

ITT's telecommunications and electronics subsidiaries today operate in more than 80 countries around the globe. In November 1979, a National Science Foundation contract awarded to Federal Electric Corporation for the U.S. Antarctic Research Program extended ITT's activities to the seventh continent, making ITT one of the few companies able to claim "pole-to-pole" operations.

The decade of the 1980s is destined to witness the expansion of telecommunications and electronics on a scale vaster than any previously experienced. ITT is strongly positioned in this area for continued growth and profitability over the next 10 years.

ITT is expanding its line of data terminals, high quality printers and "Unimat" PABXs. At year end, more than 2,500 Unimat systems had been sold in Europe, Africa, the Middle and Far East and Latin America.

ITTcontinues to pioneer in the science of fiber optics, from drawing hair-thin light transmitting filaments from a rod of ultrapure silica, as shown here, to installing complete fiber optic systems.



The communications operations group offers an expanding range of record, data and voice services worldwide. This earth station at Jatiluhur, Indonesia, celebrated its 10th year of operation in 1979 with the addition of the second of two antennas built by ITT.

For decades, ITT has been a major supplier of electronic products to military and avionics users. Night-vision goggles, produced at ITT's Electro-Optical Products Division, are used in tactical missions and by civil disaster authorities.

Orders for ITT's System 12™ digital telephone exchanges have been received from 7 countries and proposals are under evaluation by 17 nations. Recently, ITTand AT&T signed an agreement for a joint study to adapt ITT's 1240 system to AT&T's requirements.

The engineered products group is a major factor in ITT's worldwide growth.

The more than 80 companies which make up the group provide a host of automotive, electrical, industrial, instrumentation and fluid handling products, and semiconductor, electronic and electromechanical components for global markets.

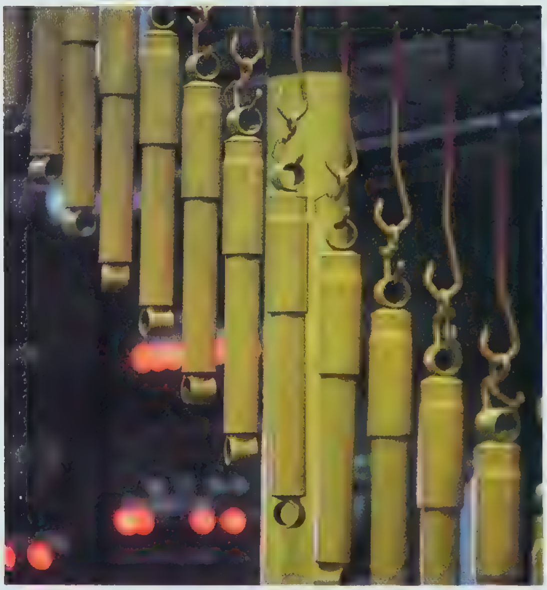
Expansion of the group's activities has come from a combination of internal growth and the addition of selected product lines. Technology developed by some divisions has sparked new product development by other units within the group, enabling ITT to introduce products which set standards of high quality and reliability.

Today, the engineered products group is positioned to meet the vigorous competition of the decade ahead.

Hydrogen thyratrons undergo exhaust and activation at ITT's Electron Tube Division. Switching thousands of high-power pulses per second, the tubes energize an accelerator that generates atomic particle beams used in cancer treatment.

Technicians at ITT's Alfred Teves, the world's principal independent manufacturer of disc brakes, examine a prototype of a new lightweight master cylinder. Cast in aluminum, the component offers a 50% reduction in weight and space over conventional cylinders.

Extensive capital investment to modernize plants and improve production—such as here at ITT Grinnell's foundry in Georgia which produces pipe fittings and custom castings—has enhanced the unit's competitive position



Shock absorbers for both standard and high-performance car models are manufactured by European-based Koni at its facility in the United States.

Automated manufacture of integrated circuits at ITT's Intermetall plant in Freiburg, West Germany, eliminates many hand-assembly operations. Microscopic wires are bonded to tiny semiconductor chips used in data processing, communications and appliances.

Over the past 20 years, ITT has established a broad base in consumer products and services, with companies worldwide in such diverse fields as hotel management, food products, publishing, educational services, land development, consumer photography and home telephones. These are but some of the hundreds of products and services offered by ITT consumer companies today.

Some 68,000 employees in ITT's consumer businesses help meet the needs of people worldwide with such well known products as Wonder® bread, Scotts® fertilizer, Burpee® seeds and garden products, as well as TV, audio and hi-fi equipment and Sheraton® hotels and inns.

Continued application of research and development and further entry into new markets will continue to build on the progress already established by this group and help ITT expand competitively during the 1980s.

Viewdata, manufactured by STC and ITT Consumer Products in the U.K., utilizes central computer information storage, allowing customers to call up diverse types of data on a TV receiver

Package integrity is monitored on this bottling line at C&C's Elizabeth, N.J. plant. The line moves 40,000 cases of 64-ounce bottles each day

An inspector checks the seal on a pack of Great Bolony™ chicken bologna at ITT Gwaltney's Smithfield, Va plant. The low-fat product is the company's fastest growing luncheon meat

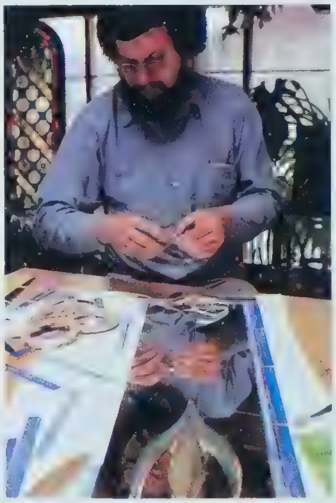
ProTurf® fertilizer from O.M. Scott is applied on the putting greens at Palm Coast's golf course in Florida. The course uses between five and six tons of Scotts fertilizer annually

The main ballroom of the Sheraton Washington, formerly the Sheraton Park, can accommodate more than 4,500 people for a meeting and 3,300 for dinner. The hotel is the largest self-contained luxury hotel/conference/exhibit complex in the Eastern U.S

About 15 years ago, ITT management examined various means of broadening its interests to serve basic human needs in fields outside telecommunications. This led to ITT's association with several companies that supply such universally needed products as cellulose, derived from wood and used to make plastics and man-made fibers; lumber for construction and other uses; pulp for paper; coal, used to process metals and produce steam; oil and gas for energy production; and special silica sands used mainly to make glass.

This nucleus of businesses comprises ITT's natural resources group. The products supplied by the group are seldom seen by the ultimate user in the form they are sold by ITT, but practically all products incorporate or are produced using one of the basic material types supplied by ITT.

Continued research assures growing markets for ITT products. A scanning electron microscope examines the structure of chemical cellulose produced by ITT Rayonier's pulp mills for use in making textile fibers.



Skilled hands and the artist's eye create a stained glass mirror in the modern practice of an ancient art. The purest of silica sands, supplied by ITT's Pennsylvania Glass Sand Corporation, help assure the perfection of the artist's work.

The forest has provided man with wood for shelter and warmth since time immemorial. Trees, like those being nurtured here, now also contribute basic materials for plastics, paper, textile fibers, and a host of other useful products.

Coal—a source of energy used to transform iron ore to steel—is mined by ITT's Carbon Industries subsidiary, cleaned of extraneous matter and shipped to steelmakers.

Standing 17 stories high, a giant rig operated by Eason Oil drills for natural gas in Oklahoma to depths of nearly four miles below the earth's surface. If successful, the well may contribute precious energy and basic chemical materials for 25 years or more.

Insurance and Finance

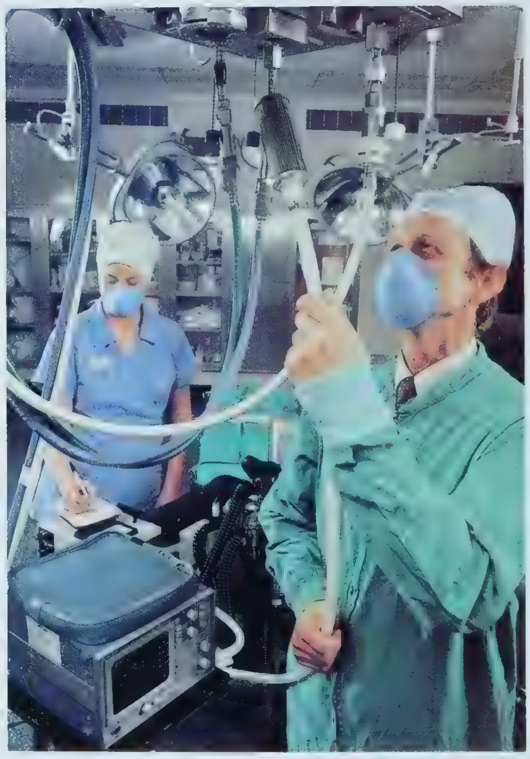
ITT's insurance and finance business group has grown to become the Corporation's third largest source of revenues and its largest income contributor. The continuing growth of both segments of this ITT business group in the 1980s will come in response to increasing demand in the many markets they serve.

ITT's insurance operations in North America and overseas are managed by The Hartford Insurance Group, which is the seventh largest property and casualty insurer in the United States, one of the nation's fastest-growing life insurers, and an important factor in international casualty, life and reinsurance markets.

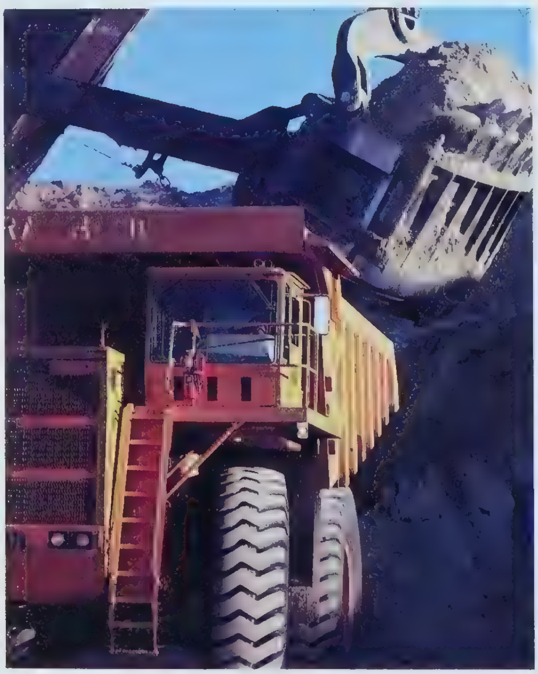
ITT's consumer and commercial finance units have grown to become the ninth-ranked independent finance operation in the United States, last year providing about $1.4 billion in loans to consumers and $1.9 billion to businesses in a variety of financing programs.

Ocean marine insurance—covering cargo and ship hulls—is one of the diverse types of commercial property insurance written by ITT subsidiaries in North America and Western Europe.

Some 2,600 individuals a day receive financial assistance from the Thorp® and Aetna® offices of ITT Consumer Financial Corp. in the U.S., and from Island Finance Corp. in Puerto Rico and the U.S. Virgin Islands.



This team of loss control specialists checking equipment at an Indiana hospital exemplifies the broad range of loss prevention services The Hartford provides to hundreds of health-care facilities covered by its medical-professional liability insurance plans



This giant mining shovel and other pieces of heavy equipment at a Wyoming uranium mine typify the variety of industrial equipment which firms purchase or lease with the financial aid of ITT Industrial Credit Company.

The Hartford handles casualty insurance claims for this Conoco refinery in Oklahoma through its Hartford Management Services affiliate, which offers loss control, claims-handling and other insurance-related services to large corporate clients.

In recent decades the obligations of social responsibility have been borne increasingly by both public and private institutions. Today, the historic principal instrument for creation of wealth—the private enterprise corporation—has become a direct and vital force for social betterment.

ITT was among the first multinational corporations to devote a full section of its annual report to detailing its activities in many areas of social responsibility. Again, in 1979, the Corporation pursued not only its specific business interests but social goals as well, carrying out the characteristic functions to which it is publicly dedicated: production of goods and services, providing consumer protection, prudent management of natural resources, safeguarding the quality of the environment, implementation of equal employment and work standards, and development of technologies to serve mankind.

An episode of ITT's award-winning television series for children, Big Blue Marble®, featured Brazil's and the world's foremost soccer star, the great Pelé, instructing fledgling American players.

Ann Doyle, who suffers from retinitis pigmentosa, a leading cause of night blindness, demonstrates the night-vision aid ITT helped develop to enable victims to see in the dark. With Mrs. Doyle is her husband David, a star of the TV program "Charlie's Angels."

Visitors to Washington, D.C. last year included these young people from many lands who are studying in the U.S. through an international fellowship program funded by ITT since 1971.

Renowned futurist and writer of science and science fiction Isaac Asimov addressed a Seton Hall University audience in New Jersey in one of several ITT-sponsored Key Issues Lecture Series.

Financial Review

Despite uncertainties in the economy, as we look to 1980 our confidence is high, influenced partially by the long-term effects of actions taken in 1979.

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Sales and Revenues and Income

Worldwide sales and revenues, including insurance and finance activities, reached a new high of $22.0 billion in 1979, a 13% improvement from the $19.4 billion in 1978. U.S. operations represented 47% of the total in 1979, and aggregated $10.4 billion, $9.4 billion and $8.3 billion in 1979, 1978 and 1977, respectively.

The order backlog of the manufacturing companies at December 31, 1979 totalled $7.7 billion, an all-time high, and approximates 7 months of sales. At the end of 1978, the order backlog was $6.6 billion, approximately 6 months of sales.

Net income amounted to $381 million or $2.65 per common equivalent share for 1979. This is after a one-time special charge of $320 million, or $2.32 per share, to cover the close-down of a Canadian pulp mill. Excluding this special charge ITT's earnings per share would have been 7% above 1978's $4.66. U.S. operations accounted for 66% of 1979 income before the aforementioned special charge. Income before extraordinary items amounted to $564 million in 1977, or $4.00 per share.

For the last few years the Corporation has been repositioning its manufacturing base, principally in Europe, and has incurred substantial restructuring costs, including severance, plant close-downs and relocations, most of which are now completed. In addition, 1979 results include the reversal of taxes recorded in prior years, which was brought about by revisions in United Kingdom tax laws ("U.K. stock relief") and the related accounting principles. Also, because of the Corporation's substantial involvement overseas, foreign exchange is an important factor applicable to the comparative results. Following is an analysis and discussion of major factors affecting the sales and revenues and income of ITT's five principal businesses (dollar amounts in millions). Reference is made to Business Segments-Sales and Income on page 11.

Summary by Segment Effect on Net Income Comparison	Increase (Decrease) From Prior Year 1979	 1978
Telecommunications and Electronics		
Restructuring	$(45)	$ (17)
U.K. Stock Relief	16	—
Foreign Exchange	23	58
	(6)	41
Engineered Products		
Restructuring	(7)	11
U.K. Stock Relief	22	—
Foreign Exchange	5	40
	20	51
Consumer Products and Services		
Restructuring, including goodwill write-off of $19 in 1979	(47)	2
U.K. Stock Relief	11	—
Foreign Exchange	4	22
	(32)	24
Natural Resources		
Foreign Exchange	(18)	3
Insurance and Finance		
Foreign Exchange	3	4
Unallocated		
Foreign Exchange	20	12
	$(13)	$135

Telecommunications and Electronics	Increase (Decrease) From Prior Year 1979		 1978	
Sales and Revenues	$667	12%	$984	21%
Income	(62)	(22)	38	16

Telecommunications Equipment manufacturing activities were the largest contributor to increased sales. Approximately 48% of the 1979 increase, compared to 23% in 1978, was attributable to changes in foreign exchange rates, the balance being attributable to inflation and operational factors such as volume, pricing and product mix in both years. Income was down from 1978 reflecting increased restructuring costs, principally attributable to repositioning in anticipation of advanced electronic technology. Additionally, $95 million and $60 million were spent in 1979 and 1978 respectively, on the development of System 12 ™, the new generation of telephone switching systems based on digital techniques. Labor unrest and lower volume in Spain contributed to the 1979 income downturn. Other negative factors were substantial reductions in order input and higher interest expense in Brazil, increased losses at ITT North Group, largely attributable to long-term international contracts, and unfavorable volume and mix in France. Also, in accordance with conservative accounting practice, in 1979 the Corporation reversed tax benefits recorded in 1978 relating to its French operations, and did not record similar benefits from current operating losses. These unfavorable changes were offset in part by the U.K. stock relief and favorable foreign exchange effects.

Increased revenues and income of Telecommunications Operations in 1979 and 1978 were principally due to increased volume of messages and leased channels. The introductory costs of electronic travel services and telephone rate reductions reduced 1979 income. Losses increased in 1979 in domestic transmission systems, which were still in the introductory stage.

Sales and revenues of Defense and Avionics Systems increased as a result of favorable foreign currency translation impacts. Earnings were up in 1979 on improved contract margins in U.S. units, improvements in Europe and favorable foreign exchange.

Engineered Products	Increase From Prior Year 1979		 1978	
Sales	$854	17%	$631	15%
Income	35	20	12	7

For 1979, sales of the Automotive Products segment of Engineered Products increased less than in 1978. The 1979 income downturn was due principally to the weak U.S. market and to labor unrest in Italy. In 1978 an operating downturn was offset by favorable foreign exchange effects and greater market penetration in the U.S. was negated by increased labor rates in Europe.

Industrial Products sales and income of North American and European sectors were significantly above 1978 levels, reflecting favorable conditions in non-residential construction markets, inflationary trends in metals, the U.K. stock relief and favorable foreign exchange translation impacts. In 1978, increased sales prices and mix favorably impacted U.S. income, but were more than offset by adjustments, sluggish volume and decreased contract margins in the European controls units.

Components sales and income increased in 1979 on strong market conditions in the U.S. and Europe. Semiconductors sales and income were up in 1979 on improved volume and mix in the U.S. The U.K. stock relief also significantly benefitted this segment.

Consumer Products and Services	Increase (Decrease) From Prior Year 1979		1978	
Sales and Revenues	$130	4%	$348	11%
Income	(37)	(82)	27	150

Food Products sales benefitted in 1979 and 1978 from increased tonnage and more favorable pricing of bakery goods, partially offset by the disposal of European operations. Income decreased in 1979 reflecting unrecovered increases in ingredient, labor and energy costs and a net loss on the divestment of unprofitable units ($1 million) and start-up costs of Continental Kitchens ($1.3 million).

Consumer Appliances represented a major weakness in operating performance during 1979. Sales were down approximately $127 million and $45 million in 1979 and 1978, respectively, excluding translation effects. Competitive pressures dictated severe production cutbacks and restructuring actions aimed at reducing future operating costs and overhead. In 1979, all goodwill relating to Consumer Appliances was written off.

Increases in Hotels and Other were attributable to record earnings of Sheraton due to occupancy and room rate increases, sales of hotels and sale of a cosmetics unit in the United Kingdom.

Natural Resources	Increase (Decrease) From Prior Year 1979		1978	
Sales	$285	27%	$115	12%
Income	77	275	(15)	(35)

In 1979, ITT Rayonier enjoyed a record year in sales and income. Reflecting an unusually strong market and favorable pricing for logs and pulp, Rayonier's income more than doubled from the preceding year. Income was favorably impacted in 1979 due to reduced operating losses of a Canadian pulp mill closed during the year. In 1978, despite record earnings from clay products, income for the group was down due to weak pulp prices, increases in labor and material costs, and the effects of a strike in the West Coast Rayonier operations.

Energy activities benefitted from improved oil and gas prices in 1979 and the absence of strikes which adversely affected coal operations in 1978.

Insurance and Finance	Increase From Prior Year 1979		1978	
Revenues	$661	16%	$596	17%
Income	49	16	61	26

Property and casualty written premiums increased 7.3% and 13.9% in 1979 and 1978, respectively. Net investment income increased due to high short-term interest rates coupled with improved cash flows. Underwriting results suffered, after improving in 1978, from unusually severe domestic catastrophe losses and from increases in claims costs reflecting the effects of inflation. The combined ratio after policyholders' dividends was 102.3% in 1979 and 100.2% in 1978. Increased earnings from life operations resulted from higher investment income in both years, also benefitting from substantial premium growth in 1979 and underwriting efficiencies in 1978.

Finance revenues and income improved in 1979 and 1978, due principally to higher receivables and related credit insurance. The return on invested equity in these operations approximated 14% for both years.

Interest Expense

In 1979, interest expense increased as a result of higher average borrowings and the record high interest rates prevailing during the latter part of the year. The 1978 increase resulted principally from higher average borrowings as higher interest rates in the U.S. were largely offset by declining interest rates in Europe.

Income Taxes and Minority Equity

If foreign exchange, the provision for close-down of a Canadian pulp mill (which carried no current tax benefit), the U.K. stock relief and insurance and finance activities were excluded, the pro forma effective income tax rate would be 48.1% for 1979, compared to 51.0% in 1978.

Minority common stockholders' equity in net income increased in 1979 reflecting initial public participation in the ownership of the Corporation's principal United Kingdom subsidiary. The 1978 increase was primarily a result of increased earnings in less than wholly-owned subsidiaries in Germany.

Miscellaneous Income (Expense)—Net

(Millions of Dollars)	1979	1978	1977
Technological restructuring	$ (209.6)	$ (64.4)	$ (30.8)
Amortization and write-off of goodwill	(32.7)	(13.8)	(12.1)
Equity in income (losses) of 20-50% owned companies	(9.9)	11.6	8.8
Gain on retirement of debt	1.4	5.1	2.0
Gain on sale of securities	—	3.2	3.6
Net gain on sale of facilities and operations	23.2	10.7	5.2
Gain on sale of minority interest in a principal subsidiary (UK—1979, Germany—1977)	21.5	—	20.0
Other—net	4.0	(5.3)	11.9
Total (before tax effect)	$ (202.1)	$ (52.9)	$ 8.6

Technological restructuring costs and accelerated goodwill write-offs increased significantly in both 1979 and 1978 largely reflecting repositioning of the European manufacturing base. The after-tax impact of this program on the income comparisons of ITT's principal businesses is shown on page 26.

In 1979, equity in earnings of 20-50% owned companies reflected the losses in a Brazilian unit, which was formerly wholly-owned, and write-off of an Iranian investment.

Gains (losses) from the sales of hotel properties were $10.0 million, $2.1 million, and $(4.0) million in 1979, 1978 and 1977, respectively. Also included were a $14.9 million gain on the sale of a cosmetics unit in the United Kingdom in 1979 and a gain of $2.4 million in 1978 from the sale of a German plant. Included in 1979 were losses attributable to the disposal of several minor operations in the United States and to the write-down of a subsidiary, in anticipation of sale.

Receivables and Inventories

Current receivables and inventories amounted to $6.6 billion at December 31, 1979, compared with $5.8 billion at the previous year-end. At year-end these items as a percent of sales increased slightly from 38.1% in 1978 to 38.3% in 1979. Write-offs of doubtful accounts decreased from 1978 and represented less than 1% of the year-end receivable balance.

Funds

Working capital amounted to $2 billion at December 31, 1979, an increase of $73 million from 1978. The current ratio was 1.40 at the close of 1979 compared to 1.45 for 1978. World Headquarters' cash receipts from foreign subsidiaries exceeded disbursements to foreign subsidiaries by $139 million for 1979.

Working capital provided from operations was $1.15 billion in 1979 and 1978.

Capital Expenditures

In 1979, capital expenditures for consolidated operations totalled $1,024 million, $99 million over 1978. Major emphasis was on strategic expenditures required to support the future growth in profits through expansion and cost reduction.

In Telecommunications and Electronics, to better serve the rapidly emerging worldwide electronic switching and data communications markets, facilities were upgraded and expanded at both manufacturing and communications operating units. Expenditures in Engineered Products were aimed at broadening market share for electronic components and industrial products. Expenditures in Consumer Products were concentrated to insure the continued success of Sheraton, Continental Baking and Scott lawn products. Rayonier accounted for a majority of Natural Resources' expenditures with significant investments also made in oil, gas and coal operations.

Insurance and Finance subsidiaries spent $25 million primarily for equipment to mechanize operations, improve customer service and reduce costs.

Depreciation in 1979 was $472 million, compared with $439 million in 1978, approximately 6% of the related average assets in both years. Accumulated depreciation amounted to 35% and 34% of the gross plant, property and equipment at year-end 1979 and 1978, respectively.

New Financing and Credit Facilities

In 1979, ITT Antilles N. V. issued $75 million of 10-year bonds in the Eurodollar market. In early 1980 the Corporation floated a $150 million 25-year issue of sinking fund debentures and obtained privately an additional $40 million of medium-term loans. Other ITT subsidiaries engaged in $23 million of tax exempt financing.

Eighty-nine U.S. banks have committed to a three-year revolving credit facility totalling $550 million, and thirty-six foreign banks have committed to three-year agreements totalling $450 million, with availability in both dollars and foreign currencies. These lines, which increased $150 million during the year, are used for short-term borrowing needs and are available as backup for the Corporation's commercial paper obligations. At year-end, commercial paper amounted to $482 million and borrowings from the Corporation's credit line banks amounted to $110 million. Early in 1980, $150 million was refinanced with long-term debt.

In 1979, ITT Financial Corporation sold $100 million of senior debentures and placed privately notes totalling $226 million. At year-end, this subsidiary had approximately $660 million of commercial paper outstanding which was backed by bank lines.

ITT Credit Corporation commenced issuance of commercial paper early in 1980 and has $150 million outstanding, covered by credit lines which now total $300 million.

At year-end, total consolidated debt was $4,457 million, an increase of $527 million, of which approximately $60 million was due to currency translation effects. Consolidated debt to total capitalization was 43.4% at year-end 1979 compared with 41% for 1978 and 46.5% five years ago. Over one-half of the increase in 1979 is attributable to the provision for close-down of a Canadian pulp mill.

Dividends

In November 1979 the board of directors increased to 60 cents the quarterly dividend on the common stock, marking 16 years of uninterrupted annual increments. Dividends per share have increased at a compound annual growth rate of 9.9% since 1963. In 1979 and 1978, income attributable to U.S. operations was 141% and 140%, respectively, of dividends declared on common and preferred stock.

Stockholders' Equity

Stockholders' equity at year-end was $5.6 billion, an increase of $114 million over 1978.

Stockholders' equity per common share improved to $34.28 at December 31, 1979 from $33.87 in 1978. No shareholder was known to hold beneficially as much as 1% of the outstanding shares at December 31, 1979. Foreign interests held 13.5% of the outstanding shares as compared with 15.1% a year earlier.

Profitability

The following statistics reflect a comparison of 1979 performance, excluding the provision for close-down of a Canadian pulp mill, with those of 1978. Reference is made to the Summary of Earnings on page 46 for reported 1979 ratios.

	1979	1978
Return on Sales	3.3%	3.6%
Return on Assets	3.0%	3.2%
Return on Total Capital	9.1%	8.8%
Return on Stockholders' Equity	12.2%	12.4%
Assets to Sales	113%	112%
Book Value per Share	$37.04	$33.87

Productivity and Capacity

Sales and revenues per employee increased 16% over 1978 to $61,100 in 1979. This increase was achieved while estimated manufacturing direct labor hours decreased by 10 million to 188 million hours reflecting the continued corporate emphasis on improved productivity. Compensation per employee, including fringe benefits, increased 17% over 1978 to $19,600 in 1979.

At the close of 1979, manufacturing operations in 600 locations occupied 62 million square feet of direct manufacturing space.

Distribution of the Sales Dollar

Of every sales dollar in 1979, 29½ cents went to corporate employees as compensation, 61 cents was spent for the work and products of other companies' employees, 8 cents was provided for taxes to various governments and, because of the provision for close-down of a Canadian pulp mill, less than one-half cent was reinvested in the business. Only 1½ cents out of each sales dollar was distributed to the stockholders as the reward for their faith in the integrity and social efficiency of the free enterprise system.

Consolidated Income

Thousands of Dollars	Years ended December 31, 1979 and 1978	1979	1978
Results for Year	Sales and Revenues	$17,197,423	$15,261,178
	Costs and Expenses		
	(including depreciation of $453,875 and $424,024)—		
	Cost of sales and services	13,340,075	11,821,967
	Selling and general expenses	2,654,633	2,326,939
		15,994,708	14,148,906
	Operating Income	1,202,715	1,112,272
	Equity in Earnings (after tax) of Insurance		
	and Finance Subsidiaries (Page 40)	349,378	300,265
		1,552,093	1,412,537
	Provision for close-down of Canadian pulp mill	(320,000)	—
	Interest expense	(520,610)	(413,111)
	Interest and dividend income	66,432	59,764
	Miscellaneous expense—net	(202,058)	(52,867)
		575,857	1,006,323
	Income Taxes and Minority Equity—		
	United States and foreign income taxes	(160,633)	(314,246)
	Minority common stockholders' equity in net income	(34,539)	(30,270)
	Net Income	$ 380,685	$ 661,807
Earnings per Share	Common Equivalent Basis	$2.65	$4.66
	Fully Diluted Basis	$2.59	$4.49

Consolidated Retained Earnings

Thousands of Dollars	Years ended December 31, 1979 and 1978	1979	1978
	Balance—Beginning of Year	$4,019,751	$3,655,653
	Add (Deduct)—		
	Net income	380,685	661,807
	Dividends declared		
	Preferred stock	(71,551)	(74,591)
	Common stock—$2.25 and $2.05 per share	(256,500)	(218,309)
	Transactions of companies prior to poolings of interests	—	(4,809)
	Balance—End of Year	$4,072,385	$4,019,751

The accompanying notes to financial statements and the information appearing on page 11 are an integral part of the above statements.

International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Consolidated Balance Sheets

Thousands of Dollars	December 31, 1979 and 1978	1979	1978
Assets	Current Assets		
	Cash	$ 170,821	$ 193,843
	Accounts and notes receivable	2,942,834	2,681,165
	Inventories	3,640,201	3,132,220
	Other current assets	272,388	257,586
		7,026,244	6,264,814
	Investments, Deferred Receivables and Other Assets		
	Insurance and finance subsidiaries (Page 41)	2,235,180	1,990,430
	Other investments	217,826	203,918
	Accounts receivable due subsequent to one year	236,272	250,157
	Other assets	311,030	333,769
		3,000,308	2,778,274
	Plant, Property and Equipment	7,756,457	7,515,703
	Less—Accumulated depreciation	2,691,688	2,523,925
		5,064,769	4,991,778
		$15,091,321	$14,034,866
Liabilities and Stockholders' Equity	Current Liabilities		
	Loans and current maturities of long-term debt	$ 1,493,216	$ 1,057,612
	Accounts payable and accrued liabilities	3,229,836	2,881,336
	Accrued taxes	295,277	390,915
		5,018,329	4,329,863
	Reserves and Deferred Liabilities	872,854	721,446
	Deferred Income Taxes	427,569	453,972
	Long-Term Debt	2,963,538	2,871,865
	Minority Equity in Subsidiaries Consolidated	187,874	150,904
		9,470,164	8,528,050
	Stockholders' Equity		
	Cumulative preferred stock	804,638	824,854
	Common stock—Authorized 200,000,000 shares, $1 par value Outstanding 115,780,173 and 112,185,094 shares	115,780	112,185
	Capital surplus	658,220	603,856
	Unrealized loss on marketable equity securities (net of tax benefits of $13,607 and $25,351)	(29,866)	(53,830)
	Retained earnings	4,072,385	4,019,751
		5,621,157	5,506,816
		$15,091,321	$14,034,866

The accompanying notes to financial statements and the information appearing on page 11 are an integral part of the above statements.

International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Consolidated Source and Application of Funds

Thousands of Dollars	Years ended December 31, 1979 and 1978	1979	1978
Source of Funds	Income including minority equity	$ 415,224	$ 692,077
	Items which did not affect working capital—		
	Depreciation	453,875	424,024
	Increase in reserves, deferred liabilities and deferred income taxes	128,977	150,532
	Amortization of goodwill and deferred business development costs	44,657	31,618
	Equity in undistributed earnings of insurance and finance subsidiaries	(164,409)	(147,964)
	Provision for close-down of Canadian pulp mill (excluding $46,163 of working capital)	273,837	—
	Working capital provided from operations	1,152,161	1,150,287
	Proceeds from issuance of long-term debt	542,303	702,040
	Net working capital from divestments	43,043	52,970
	Issuance of capital stock	37,743	7,186
	Sale of capital stock of subsidiaries	32,325	—
		$1,807,575	$1,912,483
Application of Funds	Plant, property and equipment (including $24,804 and $41,177 for companies purchased), less sales and retirements of $212,131 and $97,706	$ 839,222	$ 868,735
	Dividends declared	328,051	292,900
	Repayments and conversions of long-term debt	450,630	268,318
	Investments in and advances to insurance and finance subsidiaries	56,377	127,618
	Other investments, deferred receivables and other assets	36,520	94,981
	Working capital of Brazilian subsidiary	—	31,724
	Minority equity	23,811	25,871
	Increase in working capital	72,964	202,336
		$1,807,575	$1,912,483
Increase (Decrease) in Working Capital	Cash	$ (23,022)	$ (58,425)
	Accounts and notes receivable	261,669	344,011
	Inventories	507,981	408,676
	Other current assets	14,802	12,193
	Loans and current maturities of long-term debt	(435,604)	(62,755)
	Accounts payable and accrued liabilities	(348,500)	(429,598)
	Accrued taxes	95,638	(11,766)
		$ 72,964	$ 202,336

The accompanying notes to financial statements and the information appearing on page 11 are an integral part of the above statements.

International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Consolidated Capital Stock and Capital Surplus

Thousands of Dollars and Shares — Year ended December 31, 1979	Capital Stock				
	Cumulative Preferred		Common		
	Shares	Amount	Shares	Amount	Capital Surplus
Balance—Beginning of Year	19,608	$824,854	112,185	$112,185	$603,856
Add (Deduct)—					
Companies acquired	—	—	366	366	3,068
Employees' stock option and incentive plans	2	29	194	194	1,438
Debt and stock conversions	(1,308)	(20,245)	3,035	3,035	49,858
Balance—End of Year	18,302	$804,638	115,780	$115,780	$658,220

Notes to Financial Statements

Accounting Policies

CONSOLIDATION PRINCIPLES: The consolidated financial statements cover the accounts of all significant majority-owned subsidiaries, after including the insurance and finance subsidiaries on an equity basis. Combined financial statements for the insurance and finance subsidiaries are shown in support of the consolidated financial statements of the Corporation.

Investments in 20-50% owned companies ($166,600,000 and $141,640,000 at December 31, 1979 and 1978, respectively) are included on an equity basis. Certain other investments ($51,226,000 and $62,278,000 at December 31, 1979 and 1978, respectively) are carried at cost.

Marketable equity securities in the insurance subsidiaries' portfolios are carried at market, with the after-tax difference from cost reflected in stockholders' equity. Reference is made to page 43 for the details relating to these marketable equity securities.

Intercompany transactions are eliminated, except intercompany profits in certain manufacturing inventories which are deemed to have no material effect on consolidated inventories or net income. Such inventories are transferred on an arm's-length basis.

RESEARCH AND DEVELOPMENT: Significant costs are incurred each year in connection with research and development programs that are expected to contribute substantial profits to the operations of future years. Because of economic uncertainties such costs are charged to income as incurred. Total expenditures amounted to $959, 000,000 and $799,000,000, including $523,000,000 and $428,000,000 of costs expended pursuant to specific contracts with customers and certain engineering and other development costs in 1979 and 1978, respectively.

FOREIGN CURRENCY TRANSLATION: Net assets are translated from foreign currencies into United States dollars at the rates of exchange in effect at year end, except for inventories and certain other investments, deferred business development and policy acquisition costs, fixed assets and certain deferred taxes which are translated at historic rates.

Income accounts are translated at the average rates of exchange prevailing during the year, except for those accounts related to assets and liabilities translated at historic rates of exchange, which are translated at historic rates.

Including insurance and finance subsidiaries, net foreign exchange gains (losses) arising from the conversion of foreign currencies and the translation of balance sheet items are included in income as shown below (in thousands of dollars):

	1979	**1978**
Before minority interest and income taxes	**$(94,806)**	$(161,495)
After minority interest and income taxes	**(81,850)**	(139,286)
Per share	**(.59)**	(.98)

In addition, translation of the 1979 income statement at average rates of exchange that differed from those applicable to the prior year affected earnings adversely by $19,858,000 or $.15 per share. However, economic and operating consequences of the weakened dollar cannot be effectively quantified. If they could be, they might significantly offset these results.

INVENTORIES: Inventories are valued generally at the lower of cost (first-in, first-out) or market. In manufacturing operations, a full absorption procedure is employed using standard cost techniques. These standards are customarily reviewed and adjusted annually. Long-term contracts are accounted for on the percentage of completion method and expected losses are recognized currently. Related progress payments received from customers are reflected as deductions from inventory. Physical counts of inventories are made at least annually to support the recorded values.

The Corporation provides currently for potential losses from obsolete or slow-moving inventories. In general, a full reserve is provided for those inventories which have had little or no use in the preceding twelve months and a fifty percent reserve is provided for those inventories which are in excess of expected use in the succeeding twelve months.

BUSINESS DEVELOPMENT COSTS: The Corporation makes expenditures in connection with the establishment of plants, products and businesses. These costs, which represent amounts invested to bring new activities into normal operation, are included in Other Assets and are amortized against the related future income, generally over a five-year period. The deferred costs are written off immediately when achievement of a profit is no longer probable.

At December 31, 1979 and 1978, deferred business development costs amounted to $14,392,000 and $54,369,000, respectively. Amounts charged to income in 1979 and 1978 aggregated $47,087,000 and $17,861,000, respectively, including amounts attributable to the close-down of a Canadian pulp mill.

GOODWILL: The Corporation does not amortize goodwill related to companies acquired prior to November 1, 1970 unless there is a proven diminution of value. At December 31, 1979 and 1978, $91,925,000 and $120,871,000, respectively, of unamortizable goodwill was included in Plant, Property and Equipment.

Amortizable goodwill recorded subsequent to November 1, 1970 is charged to income over periods not longer than forty years. Such goodwill (included in Other Assets) amounted to $132,099,000 and $152,528,000 at December 31, 1979 and 1978, respectively.

Amortization and write-off of goodwill charged to income in 1979 and 1978 amounted to $32,695,000 and $13,757,000, respectively.

PLANT, PROPERTY AND EQUIPMENT: Plant, property and equipment is recorded at cost, including freight, taxes, customs duties and construction or installation costs (including labor and related overhead). Interest is capitalized in connection with major project expenditures.

Periodic physical counts of plant, property and equipment are made to verify the existence of the assets and the accuracy of the related accounting records.

DEPRECIATION: The Corporation normally claims the maximum depreciation deduction allowable for tax purposes, using those accelerated techniques which are applicable in its various domestic and foreign statutory environments, thus minimizing the use of corporate funds for tax payments. In general, for financial reporting purposes, depreciation is provided on a straight-line basis to distribute costs evenly over the useful economic lives of the assets involved. Gains or losses on sale or retirement of assets are included in income.

PENSIONS: Pension plans are generally non-contributory. The costs of such plans are provided for in accordance with actuarial determinations. Upon adoption or modification of the plans, the costs applicable to past service are amortized over various periods, the maximum being forty years.

Excluding insurance and finance subsidiaries, total pension expense (other than charges for government-provided retirement benefits) amounted to approximately $266,000,000 and $209,000,000 for 1979 and 1978, respectively. In the case of funded plans, the companies deposit the amounts provided with trustees. The Corporation follows the practice of funding employees' vested benefits except in foreign environments where funding is not required to obtain tax benefits. In those cases where vested benefits were not fully funded at December 31, 1979, such vested benefits exceeded pension funds and related recorded reserves by approximately $116,000,000.

Long-term Debt

At December 31, 1979, consolidated long-term debt at various interest rates included the following (in thousands of dollars):

Maturities	Under 9%	9% to 9.9%	10% and Over	Total
1980	$ 186,746	$ 11,314	$ 53,335	$ 251,395
1981	382,240	18,268	78,229	478,737
1982	221,703	76,497	207,145	505,345
1983	138,327	87,324	32,341	257,992
1984	115,971	45,101	63,647	224,719
1985-1994	487,876	180,552	445,578	1,114,006
1995-2005	141,426	26,865	140,140	308,431
	$1,674,289	$445,921	$1,020,415	$3,140,625
Total as of December 31, 1978	$1,825,207	$569,292	$ 537,565	$2,932,064

In addition, obligations under capital leases at December 31, 1979 amounted to $85,306,000, including $10,998,000 payable in 1980.

Preferred Stock

At December 31, 1979, cumulative preferred stock consisted of the following convertible issues (in thousands of dollars):

	Shares	Stated Value
$4.00 Series H (1.8433)	386,881	$ 38,688
$4.50 Series I (1.6622)	2,154,229	42,724
$4.00 Series J (1.6518)	977,333	97,733
$4.00 Series K (1.5876)	11,070,746	516,664
$2.25 Series N (1.2560)	2,712,973	8,829
$5.00 Series O (1.4233)	1,000,000	100,000
	18,302,162	$804,638

The Corporation has authorized 50,000,000 shares of cumulative preferred stock, without par value, which are issuable in series. Liquidation preference on shares outstanding is $100 per share, except for Series N which is $34 per share. Aggregate liquidation value at December 31, 1979 is $1.651 billion. Each preferred share is convertible into the number of shares of common stock indicated in parenthesis above, as revised as of January 1, 1980.

Common Stock

At December 31, 1979, shares of the Corporation's authorized and unissued common stock were reserved based upon the January 1, 1980 conversion rates as follows:

Conversion of cumulative preferred stock	28,314,966
Conversion of $194,249,000 principal amount of debt	4,773,946
Stock option incentive plans	3,222,691
Other	445,544
	36,757,147

Stock Option Incentive Plans

Under the Corporation's 1970 and 1977 Stock Option Incentive Plans, shares of common stock have been made available for options to employees. Qualified options are exercisable over a five-year period from date of grant, and unqualified options are exercisable over a ten-year period from date of grant. The price for the shares covered by each option is 100% of the fair market value on the date such option is granted.

At December 31, 1979, a total of 325,750 shares were available for future grants of unqualified stock options under the 1977 plan. Options were granted to employees during 1979 at prices ranging from $25.00 to $29.88 per share. Options exercised during 1979 ranged from $16.63 to $26.38 per share. Substitute stock options have been granted for shares which generally would have been issued with respect to optioned shares of certain companies acquired. Common shares subject to options during 1979 are shown below:

January 1, 1979	3,077,622
Add (Deduct)—	
Granted	451,400
Exercised	(211,238)
Canceled or expired	(420,843)
December 31, 1979 ($14.88 to $64.88 per share)	2,896,941

Retained Earnings

Under the Corporation's long-term debt agreements, approximately $1.405 billion of consolidated retained earnings at December 31, 1979 is unrestricted as to the payment of dividends. The undistributed earnings of subsidiaries consolidated, amounting to $3.142 billion at December 31, 1979 (including approximately $1.064 billion of foreign subsidiaries), should not be understood to be immediately available for payment of dividends, since substantially all of such earnings have been permanently reinvested. In addition, the retained earnings of some subsidiaries are subject to restrictions on the amount of dividends that may be paid.

Income Taxes

The provision (benefit) for income taxes, excluding insurance and finance subsidiaries, is as follows (in thousands of dollars):

	1979	1978
Current Tax:		
United States Federal	**$ 38,096**	$ 46,998
State and local	**15,098**	20,329
Foreign	**254,126**	252,883
	307,320	320,210
Deferred Tax:		
United States Federal	**(33,225)**	(19,796)
Foreign and other	**(113,462)**	13,832
	(146,687)	(5,964)
Income Taxes—Consolidated Income Statement	**$160,633**	$314,246

Deferred income tax provision (benefit) representing the tax effect arising from the reflection of revenues and expenses in different periods for financial statements than for tax purposes is as follows (in thousands of dollars):

	1979	1978
Accelerated depreciation	**$ 25,697**	$ 40,179
Current operating losses for certain foreign subsidiaries	**728**	(8,282)
Reserves and various expenses not currently allowed for tax purposes	**(92,322)**	(30,275)
United Kingdom stock relief—net	**(56,559)**	12,761
Income not currently subject to tax	**(14,852)**	1,543
Other—net	**(9,379)**	(21,890)
	$(146,687)	$ (5,964)

Investment tax credits allowed by United States and foreign governments amounting to $36,153,000 and $30,900,000 in 1979 and 1978, respectively, are included in income on a "flow-through" basis. No added United States provision has been made for taxes payable upon distribution of certain retained earnings of subsidiaries amounting to approximately $995,000,000 (primarily foreign subsidiaries), since these earnings have been permanently reinvested, or because taxes payable on such earnings will be substantially offset by foreign tax credits.

In January, 1980, the Internal Revenue Service issued a Revenue Agent's Report proposing deficiencies in United States income taxes for the years 1970 and 1971, relating principally to items of a timing nature and adjustments for foreign tax credits. Certain of the adjustments are being contested, and, in the opinion of management, adequate provision has been made for all income tax liabilities.

Certain foreign subsidiaries, principally in Canada and France, have substantial tax loss carryovers available to offset possible future taxable income. The Corporation will record the tax benefits attributable to such carryovers as they are realized through future profitable operations.

A reconciliation of the effective tax rate to the United States statutory tax rate, after excluding the provision for the close-down of a Canadian pulp mill and the equity in earnings of insurance and finance subsidiaries, is as follows:

	1979	1978
Effective income tax rate	**29.4%**	44.5%
Effective foreign tax rate differential	**4.2**	2.2
Loss of United States tax benefits on United States expenses incurred to generate foreign source income, and foreign withholding taxes, net of tax credits	**(7.9)**	(4.4)
Investment tax credits allowed by the United States and foreign governments	**6.6**	4.4
Capital gains benefits	**2.5**	1.8
State and local income taxes	**(1.6)**	(1.6)
Reversal of prior years' United Kingdom stock relief	**10.3**	—
Other, net	**2.5**	1.1
United States Statutory Rate	**46.0%**	48.0%

Leases and Rentals

At December 31, 1979, minimum rental commitments under capital and noncancelable operating leases were as follows (in thousands of dollars):

Year	Capital Leases	Operating Leases
1980	$ 18,176	$132,432
1981	15,393	110,064
1982	13,069	82,159
1983	11,440	61,888
1984	9,298	53,935
Remaining years	117,544	301,518
Total minimum lease payments	184,920	$741,996
Amounts representing interest	(99,614)	
Present value of net minimum lease payments	$ 85,306	

Rental expense for all operating leases is shown below (in thousands of dollars):	1979	1978
Minimum rentals	**$245,000**	$208,446
Contingent rentals	**39,931**	18,384
Less: sublease rentals	**(5,340)**	(3,111)
	$279,591	$223,719

Acquisitions and Divestments

In 1979, the Corporation acquired for $35,000,000 of common stock and cash, nine companies with total sales of approximately $86,000,000. Most notable of these was the W. Atlee Burpee Company. Also, the Corporation divested seventeen companies which had $221,000,000 in sales and losses of approximately $9,000,000 in their last full year with ITT. These divestments yielded proceeds of $74,000,000, and after-tax gains of $8,500,000. Principal among these were the European Food Group and Rimmel International Limited.

In June, 1979, the Corporation sold 15% of its interest in Standard Telephones and Cables Limited, a principal United Kingdom subsidiary, in a public offering for approximately $51,500,000 in cash. A gain of $8,450,000, after attributable taxes, resulted from the sale.

In February, 1979, the Corporation sold 51% of the voting control in its Brazilian subsidiary, Standard Electrica S.A. for $4,000,000 cash and up to $19,000,000 payable (without interest) out of distributed earnings over a period of up to ten years. No gain or loss resulted from this transaction.

Close-down of Canadian Pulp Mill

In September, 1979, the Corporation made a provision of $320,000,000 (with no current tax benefit), or $2.32 per share, to cover its investment in the chemical cellulose pulp mill at Port Cartier, Quebec, Canada. The mill which had been idled by a labor strike for more than three months remains closed.

This provision includes $233,000,000 for net plant, property and equipment, $35,000,000 for deferred business development costs, and the remainder for other costs associated with the close-down. Operating losses (before tax benefit) for these operations amounted to $38,000,000 and $45,000,000 in 1979 and 1978, respectively.

Earnings Per Share

Earnings per common equivalent share is based on 138,132,000 and 141,476,000 average shares during 1979 and 1978, respectively, which excludes, in 1979, Series I convertible preferred stock which was anti-dilutive. Securities considered common stock equivalents include all convertible preferred stocks (except for Series O) and certain convertible debentures of subsidiaries. With respect to options and warrants, it has been assumed that the proceeds have been used to acquire common stock of the Corporation.

Earnings per common share, assuming full dilution, gives effect to conversion as of the beginning of each year of all convertible securities which would have a dilutive effect.

Commitments and Contingencies

The Internal Revenue Service has challenged the tax-free status of the Corporation's 1970 acquisition of the Hartford Fire Insurance Company. In this connection, ITT has agreed to reimburse former Hartford shareholders for any net overall additional income tax with interest. In early 1979, the U.S. Tax Court determined that the ITT/Hartford exchange was tax-free. In April 1979, the U.S. District Court in Wilmington, Delaware also ruled that this transaction was tax-free. These decisions have been appealed by the Government and are pending before U.S. Courts of Appeal. The Corporation is hopeful of a favorable resolution upholding its position that the exchange was a tax-free transaction. Favorable resolution would relieve ITT of any obligation for tax reimbursement.

On the basis of a 1974 independent survey of former Hartford stockholders, the Corporation has estimated that it might have a contingent liability of approximately $100,000,000 for the reimbursement obligation described previously. In the event of an adjudication that the exchange was taxable, an extraordinary charge to income will be recorded which would have a material effect on net income for the year in which the charge is made.

The Corporation and its subsidiaries consolidated have guaranteed the borrowings of others of approximately $143,000,000 (including $45,000,000 relating to insurance and finance subsidiaries) at December 31, 1979, and are contingently liable for receivables discounted of approximately $1,250,000,000 (including $650,000,000 of receivables reflected in the statements of insurance and finance subsidiaries) arising principally from sales of telecommunication equipment to public administrations.

In February, 1980, American Telephone and Telegraph Company (AT&T) and the Corporation signed an agreement to settle prior antitrust litigation. The agreement calls for a joint feasibility study of ITT's 1240 digital switching system and, if found viable technically and from a cost standpoint, AT&T's system engineering support of a two-year program to adapt the 1240 switch for use in the Bell System network. In addition, the agreement provides that AT&T will purchase over a ten-year period up to $2 billion in telecommunications products and services from ITT that the Bell System determines to be competitive. AT&T also made a deposit with ITT of $100 million on March 5, 1980, and will make a further deposit of $100 million on January 1, 1984, which will be returned to AT&T at a rate of 10% of Bell System purchases of such products and services from ITT. The income effect of this settlement will be recorded as products and services are delivered under the contract.

The Corporation and its subsidiaries are also involved in various legal actions, some of which involve claims for substantial amounts. However, the ultimate liability with respect to the foregoing contingencies is not considered to be material in relation to the consolidated financial position.

Business Segment Information

Millions of Dollars	Sales and Revenues			Operating Income			Identifiable Assets		
	1979	1978	1977	**1979**	1978	1977	**1979**	1978	1977
Telecommunications and Electronics									
Telecommunications Equipment	**$ 5,342**	$ 4,721	$ 3,805	**$ 392**	$ 451	$ 391	**$ 4,408**	$ 3,916	$ 3,387
Telecommunications Operations	**292**	265	221	**91**	90	71	**530**	474	445
Defense and Avionics Systems	**673**	654	630	**45**	30	30	**338**	327	263
	6,307	5,640	4,656	**528**	571	492	**5,276**	4,717	4,095
Engineered Products									
Automotive Products	**1,711**	1,541	1,301	**140**	178	155	**1,023**	911	750
Industrial Products	**2,961**	2,527	2,261	**221**	170	159	**1,807**	1,652	1,551
Components and Semiconductors	**1,160**	910	785	**106**	81	69	**804**	676	559
	5,832	4,978	4,347	**467**	429	383	**3,634**	3,239	2,860
Consumer Products and Services									
Food Products	**1,743**	1,702	1,551	**48**	55	54	**472**	531	509
Consumer Appliances	**878**	922	822	**(14)**	12	(9)	**574**	597	551
Hotels and Other	**1,109**	976	879	**99**	82	57	**929**	901	900
	3,730	3,600	3,252	**133**	149	102	**1,975**	2,029	1,960
Natural Resources									
Timber and Earth	**1,088**	872	772	**147**	54	63	**1,394**	1,515	1,410
Energy	**240**	171	156	**26**	16	22	**351**	333	320
	1,328	1,043	928	**173**	70	85	**1,745**	1,848	1,730
Unallocated	**—**	—	—	**(98)**	(107)	(83)	**2,461**	2,202	1,926
	17,197	15,261	13,183	**1,203**	1,112	979	**15,091**	14,035	12,571
Less investment in insurance and finance subsidiaries included in Unallocated	**—**	—	—	**—**	—	—	**2,235**	1,990	1,714
Insurance and Finance									
Casualty and Life Insurance	**4,281**	3,761	3,260	**297**	259	205	**10,008**	8,612	7,285
Finance	**518**	377	282	**107**	90	57	**3,314**	2,685	2,039
	4,799	4,138	3,542	**404**	349	262	**13,322**	11,297	9,324
Total	**$21,996**	$19,399	$16,725	**$1,607**	$1,461	$1,241	**$26,178**	$23,342	$20,181

Geographical Segment Information

Millions of Dollars	Sales and Revenues			Operating Income			Identifiable Assets		
ITT and Subsidiaries Consolidated									
United States	**$ 6,603**	$ 5,950	$ 5,261	**$ 485**	$ 482	$ 436	**$ 4,871**	$ 4,301	$ 3,848
Canada	**543**	448	402	**35**	(19)	(22)	**475**	760	748
Western Europe	**9,348**	8,139	6,890	**669**	649	552	**6,750**	6,180	5,396
Other	**703**	724	630	**112**	107	96	**534**	592	653
Unallocated, net	**—**	—	—	**(98)**	(107)	(83)	**226**	212	212
	17,197	15,261	13,183	**1,203**	1,112	979	**12,856**	12,045	10,857
Insurance and Finance									
United States	**3,814**	3,426	2,990	**315**	287	211	**9,693**	8,435	7,052
Canada	**42**	48	51	**3**	3	6	**132**	126	120
Western Europe	**781**	576	465	**73**	50	42	**3,185**	2,545	2,026
Other	**162**	88	36	**13**	9	3	**312**	191	126
	4,799	4,138	3,542	**404**	349	262	**13,322**	11,297	9,324
Total	**$21,996**	$19,399	$16,725	**$1,607**	$1,461	$1,241	**$26,178**	$23,342	$20,181

INTERSEGMENT SALES—Sales for 1979, 1978 and 1977 of the Components and Semiconductors segment exclude intersegment sales of $148, $165 and $120, respectively, which are priced on an arm's-length basis and eliminated in consolidation. Intersegment sales in all other groups are not material.

SALES TO FOREIGN GOVERNMENTS—Sales to various foreign governments, primarily of telecommunications equipment, aggregated $2,560, $2,384 and $2,156 in 1979, 1978, and 1977, respectively.

NET INCOME AND NET ASSETS—United States operations accounted for approximately 66%, 62% and 61% of 1979, 1978 and 1977 income, respectively, before the write-off of a Canadian pulp mill in 1979. Net assets employed in the United States amounted to $3,753, $3,438 and $2,881 at December 31, 1979, 1978 and 1977, respectively.

Business Segment Information

Millions of Dollars	Gross Plant, Property and Equipment			Gross Plant Additions			Depreciation		
	1979	1978	1977	**1979**	1978	1977	**1979**	1978	1977
Telecommunications and Electronics									
Telecommunications Equipment	**$1,757**	$1,545	$1,407	**$ 254**	$224	$157	**$113**	$111	$ 87
Telecommunications Operations	**594**	510	452	**88**	71	65	**34**	31	27
Defense and Avionics Systems	**179**	169	159	**16**	15	12	**11**	10	9
	2,530	2,224	2,018	**358**	310	234	**158**	152	123
Engineered Products									
Automotive Products	**676**	594	518	**80**	82	65	**34**	29	26
Industrial Products	**796**	814	748	**85**	78	80	**46**	39	39
Components and Semiconductors	**502**	445	401	**73**	75	55	**34**	31	26
	1,974	1,853	1,667	**238**	235	200	**114**	99	91
Consumer Products and Services									
Food Products	**598**	625	590	**61**	57	54	**37**	38	35
Consumer Appliances	**212**	225	206	**37**	37	31	**22**	21	19
Hotels and Other	**622**	694	690	**106**	78	91	**28**	30	28
	1,432	1,544	1,486	**204**	172	176	**87**	89	82
Natural Resources									
Timber and Earth	**1,353**	1,465	1,333	**170**	170	152	**66**	59	50
Energy	**383**	347	318	**41**	36	28	**24**	21	17
	1,736	1,812	1,651	**211**	206	180	**90**	80	67
Unallocated	**84**	83	96	**13**	2	11	**5**	4	4
	7,756	7,516	6,918	**1,024**	925	801	**454**	424	367
Insurance and Finance									
Casualty and Life Insurance	**190**	176	167	**22**	11	13	**16**	13	11
Finance	**36**	34	33	**3**	5	4	**2**	2	2
	226	210	200	**25**	16	17	**18**	15	13
Total	**$7,982**	$7,726	$7,118	**$1,049**	$941	$818	**$472**	$439	$380

Telecommunications and Electronics. Telecommunications equipment units engineer, manufacture, sell and install a wide variety of communications and electronic equipment, including telephone apparatus, switching systems, commercial microwave systems, private communications systems, and teleprinters among other items. ITT's telecommunications operations provide telephone, international telegraph, telex and other record and data communication services. Defense and avionics activities include the manufacture, sale, installation, maintenance and operation of military telecommunications and electronic equipment, chiefly for the United States Government.

Engineered Products. These units are engaged in the manufacture and sale of automotive equipment and accessories and parts for the original equipment market and aftermarket, equipment for the construction, sanitary and process industries (including temperature and process controls and instruments), pumps and compressors, valves and pipe fittings, wire and cable, components, integrated circuits, other semiconductors and electron tubes.

Consumer Products and Services. Food products include the manufacture and wholesale distribution of bread, cakes, frozen foods, soft drinks and related products. Other food activities include the processing of various meat products. Consumer appliance activities include the manufacture and sale of consumer electronic products. Hotels and other products and services include a worldwide network of hotels and inns as well as lawn care products, publishing and land development.

Natural Resources. Timber and Earth units are engaged in the production of wood pulps (chemical cellulose and bleached papermaking pulps) and other wood products (lumber, plywood, treated wood products, logs and silvichemicals), and in mining, processing and marketing of silica and attapulgite. Energy units are also involved in oil and gas exploration and the operation of such properties, and in the underground mining, preparation and sale of metallurgical and steam coal.

Insurance and Finance. These units write a broad range of life, property and casualty insurance, make consumer and commercial loans and also provide financing to ITTcustomers.

Quarterly Results for 1979 and 1978 (Unaudited)

Dollar amounts in millions except per share		Three Months Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year
1979	Sales and Revenues	$3,792	$4,167	$4,007	$5,231	$17,197
	Operating Income	$ 338	$ 246	$ 202	$ 417	$ 1,203
	Net Income	$ 209	$ 157	$ (137)	$ 152	$ 381
	Earnings per Share*					
	Common equivalent basis	$ 1.47	$ 1.11	$ (.98)	$ 1.05	$ 2.65
	Fully diluted basis	$ 1.41	$ 1.07	$ (.98)	$ 1.02	$ 2.59
1978	Sales and Revenues	$3,324	$3,746	$3,557	$4,634	$15,261
	Operating Income	$ 259	$ 300	$ 183	$ 370	$ 1,112
	Net Income	$ 159	$ 188	$ 134	$ 181	$ 662
	Earnings per Share					
	Common equivalent basis	$ 1.12	$ 1.33	$ .94	$ 1.27	$ 4.66
	Fully diluted basis	$ 1.08	$ 1.28	$ .91	$ 1.22	$ 4.49

*Fully diluted earnings per share do not total full year earnings per share because in the third quarter the provision for the close-down of a Canadian pulp mill caused certain securities to become temporarily anti-dilutive. The dilutive nature of securities is determined quarterly based upon the forecast of annual earnings.

Effects of Inflation (Unaudited)

The continuing impact of worldwide inflation and the erosion of purchasing power has seriously constrained the economic conclusions that can be drawn from a review of conventional "historic cost" financial statements. To some extent, these traditional presentations can regain usefulness if read in conjunction with the following supplementary disclosures required by Statement No. 33 of the Financial Accounting Standards Board.

CURRENT COST: The current cost of plant, property and equipment has been determined by the application of external price indexes specifically or closely related to the class of assets being measured. For foreign units, specific local indexes have been applied that are appropriate for each country. Pending subsequent recommendations of the FASB, the cost of real estate and natural resources (coal, oil and timber) has been adjusted for decreases in the general purchasing power of the dollar, but not for specific price increases.

Using the above approaches, which generally adjust the recorded historic cost of inventory and plant items to the costs of those items as if they were acquired at the date of sale or the balance sheet date, it is noted that gross holding gains of $727 million accumulated during 1979. Furthermore, during the year, it would be appropriate to increase inventory and plant costs charged against income by $337 million to restate to the current cost of the values being sold. On a pre-tax basis, before minority interest, the reported earnings for 1979 would have been reduced by an amount of $2.44 per share. Holding gains would have been increased by $5.27 per share, as follows (in millions):

Realized—General price level	$ 421	
—Specific price changes	(84)	$337
Unrealized (changes in)—General price level	$1059	
—Specific price changes	(669)	390
Total Holding Gains During 1979		$727

CONSTANT DOLLAR: Alternatively, if the historic earnings were reported in terms of constant purchasing power, it would be necessary to recognize that the dollars recorded in the conventional accounting records represent a relatively smaller purchasing power at December 31, 1979 than they would have represented when originally expended. The amounts charged against income for inventory and plant on an historic basis would be increased by $421 million or $3.05 per common share to adjust for the changing purchasing power of the dollar as it applies to these costs. Moreover, since the U.S. Consumer Price Index for all Urban Consumers rose from 202.9 at year end 1978 to 229.9 at year end 1979, a reduction of $329 million in the purchasing power needed to satisfy net monetary obligations occurred during the year, as follows (in millions):

Net monetary obligations—beginning of year, as reported	$2453
Adjustment to 1979 dollars	177
Activity—1979	367
Net monetary obligations—end of year, 1979 dollars	(2668)
Reduction of purchasing power needed to satisfy monetary obligations	$ 329

It should be recognized that the restatements referred to in the foregoing comments are to be looked at as broad approximations rather than as specific calculations. Neither the estimates of specific prices used in arriving at current costs nor the CPI index used in the constant dollar approach are necessarily applicable on a continuing basis to the Corporation's broad geographic and product diversity. Moreover, special approaches have had to be employed in certain industry groups and it is significant that no tax effect has been ascribed to the hypothetical restatements. Despite these limitations, the revised indications of financial trends may be of use to analysts and investors. The data for ITT and industry in general appear to indicate a need for revised pricing policies, for a more equitable approach to the taxation of reported earnings, and for a concern with the requirements of future financing programs.

Summary of Effects of Inflation (Unaudited)

Dollar amounts in millions except per share		Historic Cost (As reported)	Constant Dollar	Current Cost
Results for 1979	Sales and Revenues	$21,996	$21,996	$21,996
	Cost of sales and services	12,886	13,160	12,945
	Depreciation	472	596	727
	Other costs and expenses	7,689	7,712	7,712
	Minority equity	34	1	9
	U.S. and foreign income taxes	214	214	214
	Net Income*	$ 701	$ 313	$ 389
	Earnings per Common Equivalent Share*	$ 4.97	$ 2.16	$ 2.71

*Exclusive of provision for close-down of a Canadian pulp mill.

Summary of Assets	December 31, 1979—			
	Inventories	$ 3,640	$ 3,514	$ 3,702
	Net plant, property and equipment	5,065	7,159	8,612
	December 31, 1978—			
	Inventories	3,132	3,355	3,195
	Net plant, property and equipment	4,992	7,125	8,148

		1979	1978	1977	1976	1975
Comparative Data Adjusted for Inflation (Average 1979 Dollars)	Sales and Revenues—					
	As reported	**$21,996**	$19,399	$16,725	$14,892	$14,232
	Constant dollars	**21,996**	21,593	20,042	18,997	19,203
	Stockholders' Equity—					
	As reported	**5,621**	5,507	5,141	4,574	4,252
	Constant dollars	**7,677**	—	—	—	—
	Current cost in constant dollars	**8,622**	—	—	—	—
	Dividends Declared per Common Share—					
	As reported	**2.25**	2.05	1.82	1.64	1.54
	Constant dollars	**2.23**	2.28	2.18	2.09	2.08
	Market Price per Common Share at Year-End—					
	As quoted	**25.50**	27.00	31.75	33.88	22.50
	Constant dollars	**24.12**	28.94	37.11	42.27	29.43
	Average for Year— Consumer Price Index	**217.5**	195.4	181.5	170.5	161.2

Insurance and Finance Subsidiaries of ITT

Thousands of Dollars	Years ended December 31, 1979 and 1978	1979	1978
Results for Year	Revenues		
	Casualty insurance premiums (net of increase in unearned premiums of $61,812 and $91,351)	$2,916,104	$2,683,116
	Life and health insurance premiums	893,388	718,708
	Finance	518,066	377,477
	Investment income (less expenses of $31,864 and $21,895)	471,042	358,223
		4,798,600	4,137,524
	Expenses		
	Current and future claims—		
	Casualty	2,126,578	1,914,886
	Life and health	772,453	623,697
	Amortization of deferred policy acquisition costs	722,105	666,289
	Other insurance expenses	359,437	295,292
	Finance—		
	Operating	186,833	142,297
	Interest	227,196	146,124
		4,394,602	3,788,585
	Operating Income	403,998	348,939
	United States and foreign income taxes	(52,904)	(56,225)
	Operating Income after Income Taxes	351,094	292,714
	Net realized investment (losses) gains, after applicable income tax (benefit) provision of ($175) and $395	(1,716)	7,551
Retained Earnings	Net Income	349,378	300,265
	Add (Deduct)—		
	Retained earnings at beginning of year	1,218,796	1,070,832
	Dividends declared	(184,969)	(152,301)
	Retained Earnings at End of Year	$1,383,205	$1,218,796

In accordance with accepted practice, the decrease in unrealized loss on marketable equity securities of $23,964 and $1,324 (net of taxes of $11,744 and tax benefits of $2,139) in 1979 and 1978, respectively, have not been included in reported income.

The accompanying notes to financial statements and the information appearing on page 11 are an integral part of the above statements.

Insurance and Finance Subsidiaries of ITT

Thousands of Dollars	December 31, 1979 and 1978	1979	1978
Assets	Investments		
	Bonds, notes and other fixed maturity investments, at amortized cost (market value $4,824,981 and $4,507,889)	$ 5,489,225	$ 4,820,350
	Equity securities, at market	594,789	547,434
	Real estate (at cost, net of accumulated depreciation of $22,896 and $19,579)	160,758	139,199
	Other	494,128	362,662
		6,738,900	5,869,645
	Cash	64,502	37,881
	Finance receivables	3,081,590	2,520,654
	Premiums receivable and agents' balances	624,466	591,603
	Deferred policy acquisition costs	621,383	555,706
	Other assets	857,937	670,800
	Policyholders' funds	1,333,283	1,050,871
		$13,322,061	$11,297,160
Liabilities	Insurance reserves and claims—		
	Casualty	$ 3,396,903	$ 2,888,908
	Life and health	1,525,007	1,259,138
	Unearned premiums	1,169,802	1,086,700
	Long-term debt, due 1981—2003 average interest rate 9.7%	1,397,387	1,159,833
	Bank loans and other short-term obligations	1,296,166	1,079,807
	Deferred income taxes	293,245	232,567
	Other liabilities	675,088	548,906
	Liability for policyholders' funds	1,333,283	1,050,871
		11,086,881	9,306,730
Stockholder's Equity	Capital and subordinated debt	881,841	825,464
	Unrealized loss on marketable equity securities (net of tax benefits of $13,607 and $25,351)	(29,866)	(53,830)
	Retained earnings	1,383,205	1,218,796
		2,235,180	1,990,430
		$13,322,061	$11,297,160

The accompanying notes to financial statements and the information appearing on page 11 are an integral part of the above statements.

Insurance and Finance Subsidiaries of ITT

Thousands of Dollars	Years Ended December 31, 1979 and 1978	1979	1978
Source of Funds	Net income	$ 349,378	$ 300,265
	Items which did not affect funds—		
	Insurance reserves and claims	773,864	741,673
	Amortization of deferred policy acquisition costs	722,105	666,289
	Increase in unearned premiums	83,102	80,360
	Deferred income taxes	60,678	28,699
	Depreciation	18,158	15,348
	Funds provided from operations	2,007,285	1,832,634
	Sale of bonds, notes and other fixed maturity investments	856,889	773,760
	Proceeds from issuance of long-term debt	369,268	358,759
	Increase in bank loans and other short-term obligations	216,359	376,833
	Sale of equity securities	195,098	76,166
	Increase in other liabilities	126,182	50,272
	Capital contributions and advances	56,377	126,735
	Temporary bond investments, net	34,872	(130,152)
	Sale of real estate investments	20,168	13,159
	Issuance of capital stock	—	883
		$3,882,498	$3,479,049
Application of Funds	Purchase of bonds, notes and other fixed maturity investments	$1,560,636	$1,565,139
	Deferred policy acquisition costs	787,782	707,165
	Increase in finance receivables	560,936	611,470
	Purchase of equity securities	206,745	11,913
	Dividends declared	184,969	152,301
	Repayments of long-term debt	131,714	132,760
	Other investments	131,466	96,302
	Purchase of real estate investments	45,044	27,145
	Premiums receivable and agents' balances	32,863	73,510
	Other, net	240,343	101,344
		$3,882,498	$3,479,049

The accompanying notes to financial statements and the information appearing on page 11 are an integral part of the above statements.

International Telephone and Telegraph Corporation and Subsidiaries Consolidated

Notes to Insurance and Finance Subsidiaries of ITT

Accounting Policies

COMBINATION PRINCIPLES: The combined financial statements cover the accounts of all subsidiaries engaged in casualty insurance, life insurance and finance activities. These statements have been prepared on the basis of generally accepted accounting principles which differ in certain material respects from the accounting prescribed by various regulatory authorities.

CASUALTY INSURANCE COMPANIES: Policy acquisition costs representing commissions, premium taxes, and certain other underwriting expenses have been deferred and are being amortized over appropriate policy terms.

Unearned premium reserves are calculated principally by the application of monthly pro rata fractions for the unexpired terms of policies in force. The liability for unpaid claims includes amounts determined by claim adjusters on individual cases and estimates of unreported claims based on past experience. While the reserves for unpaid claims are believed to be adequate, no representation is made that the ultimate liability may not exceed such estimate.

Estimates of future revenues, including investment income, are compared to estimates of future costs, including amortization of policy acquisition costs, to determine if business currently in force is expected to result in a net loss. No revenue deficiencies have been determined in the periods presented.

LIFE INSURANCE COMPANIES: Life insurance premiums are recognized when due from policyholders, with reserves for future benefit payments being established in respect to such premiums. Such reserves have been computed by the net level premium method based upon estimated future investment yields, withdrawals, mortality and other assumptions which were appropriate at the time the policies were issued. The costs of acquiring new business have been deferred and are being amortized in proportion to premium revenue recognized.

FINANCE COMPANIES: Revenues from installment notes receivable are recognized using the combination method whereby finance charges equivalent to the provision for doubtful receivables and the marketing and processing expenses to make a loan are recognized when the receivable originates. Finance charges equivalent to expenses to subsequently service the loan are recognized ratably over the contract period and the remainder is recognized using the sum-of-digits method.

FOREIGN CURRENCY TRANSLATION: Net foreign exchange gains arising from the conversion of foreign currencies and the translation of balance sheet items are included in income and amounted to $7,709,000 and $10,853,000 for 1979 and 1978, respectively.

MARKETABLE EQUITY SECURITIES: Investments are made in equity securities by the insurance subsidiaries to produce earnings from a combination of dividends and appreciation. Gains and losses are recognized on a specific cost identification basis.

Equity securities are carried at market (cost of $638,262,000 and $626,615,000 at December 31, 1979 and 1978) with the after-tax difference from cost reflected in stockholder's equity.

Unrealized gains (losses) in the equity portfolios of these subsidiaries are shown below (in thousands of dollars):

	December 31 1979	1978
Gross unrealized gains	**$ 90,478**	$ 61,527
Gross unrealized losses	**(133,951)**	(140,708)
Applicable tax effect	**13,607**	25,351
	$ (29,866)	$ (53,830)

PENSIONS: The combined companies have pension plans which are generally non-contributory. The costs of such plans are provided for in accordance with actuarial determinations. Upon adoption or modification of the plans, costs applicable to past service are amortized over periods not longer than forty years. Total pension expense amounted to $27,854,000 and $24,338,000 for 1979 and 1978, respectively.

Generally, pension costs are funded through the purchase of group annuity contracts. In those cases where vested benefits were not fully funded at December 31, 1979, such vested benefits exceeded pension funds and related recorded reserves by approximately $59,000,000.

Finance Receivables

Finance receivables outstanding were as follows (in thousands of dollars):

	December 31 1979	1978
Consumer	**$1,421,764**	$1,159,603
Commercial	**2,162,045**	1,722,889
	3,583,809	2,882,492
Less: Unearned income and allowance for doubtful accounts	**(502,219)**	(361,838)
	$3,081,590	$2,520,654

Contractual maturities at December 31, 1979 were as follows (in thousands of dollars):

	Total	Consumer	Commercial
1979	$ 65,393	$ 24,676	$ 40,717
1980	1,570,933	552,137	1,018,796
1981	692,301	390,280	302,021
1982	400,702	193,088	207,614
1983	202,285	66,679	135,606
1984 and after	652,195	194,904	457,291
	$3,583,809	$1,421,764	$2,162,045

Historically, a substantial portion of the receivables has been renewed prior to maturity. Accordingly, the schedule of maturities may not be fully indicative of future cash collections.

The maximum terms, not considering any further refinancing or extensions, over which the finance receivables are generally written are 120 months for consumer and 240 months for commercial loans.

Net charge-offs as a percent of average net finance receivables were 1.17% in 1979 compared to .86% in 1978.

Income Taxes

With the exception of life insurance subsidiaries, all United States companies in the combination are included in ITT's consolidated United States Federal income tax return and remit to (or receive from) ITT an income tax provision (or benefit) computed using appropriate statutory rates.

The provision (benefit) for income taxes is as follows (in thousands of dollars):

	1979	1978
Tax on Income from Operations—		
Current Tax:		
United States Federal	**$ (13,491)**	$ (4,070)
Foreign and other	**29,337**	18,956
	15,846	14,886
Deferred Tax:		
United States Federal	**24,211**	35,147
Foreign and other	**12,847**	6,192
	37,058	41,339
Income Taxes—Operations—Combined Income Statement	**$52,904**	$56,225
Tax on Realized Investment (Losses) Gains—		
Current Tax	**$ 1,125**	$ 2,043
Deferred Tax	**(1,300)**	(1,648)
Income Taxes—Realized Investment (Losses) Gains	**$ (175)**	$ 395

Deferred income tax provision (benefit) representing the tax effect arising from the reflection of revenues and expenses in different periods for financial statements than for tax purposes is as follows (in thousands of dollars):

	1979	1978
Deferred policy acquisition costs	**$22,575**	$20,469
Premium revenues	**3,848**	15,254
Lease receivables	**9,750**	5,858
Policy benefit reserves	**(590)**	(9,101)
Other, net	**175**	7,211
	$35,758	$39,691

A reconciliation of the effective tax rate to the United States statutory tax rate is as follows:

	1979	1978
Effective income tax rate	**13.1%**	15.9%
Tax exempt interest income	**19.1**	19.4
Effective foreign tax rate differential	**2.5**	2.0
Dividends received deduction	**3.5**	4.0
Utilization of foreign tax credits	**7.9**	4.6
Other, net	**(.1)**	2.1
United States Statutory Rate	**46.0%**	48.0%

No added United States provision has been made for taxes payable upon distribution of retained earnings of foreign subsidiaries amounting to approximately $177,000,000, since these earnings have been permanently reinvested, or because taxes payable on such earnings will be substantially offset by foreign tax credits.

Long-term Debt

Maturities of long-term debt outstanding at December 31, 1979 are $72,814,000, $194,514,000, $91,519,000, $131,215,000 and $168,980,000 for the years 1980, 1981, 1982, 1983 and 1984, respectively.

Reinsurance—Casualty

The combined casualty companies cede insurance to other insurers in order to limit their maximum loss through risk diversification. Insurance ceded by the companies does not relieve their primary liability as the originating insurers. The approximate amounts deducted from liabilities, income and expenses for insurance ceded were as follows (in thousands of dollars):

	1979	1978
Insurance reserves and claims	**$671,597**	$524,627
Unearned premiums	**114,743**	104,460
Insurance premiums	**767,575**	695,409
Current and future claims	**476,066**	435,416

Premiums and recoveries on catastrophe-type reinsurance contracts deducted from premiums earned and losses incurred were not material to the combined financial statements. The combined casualty companies also assume insurance from other insurers. Reinsurance premiums assumed that are included in earned premiums were $535,217,000 and $447,440,000 for 1979 and 1978, respectively.

Stockholder's Equity

The increase in capital and subordinated debt is attributable primarily to cash advances by ITT.

The combined retained earnings should not be understood to be immediately available for payment of dividends since substantially all of such earnings have been permanently reinvested or are restricted under long-term debt or other agreements.

Segment Information

(in millions of dollars)	1979	1978	1977
Revenues:			
Casualty			
Commercial	**$ 2,398**	$ 2,121	$1,829
Personal	**754**	741	699
Unallocable Investment Income	**102**	85	66
Life and Health—Group	**404**	374	350
—Other	**623**	440	316
Finance	**518**	377	282
	$ 4,799	$ 4,138	$3,542
Operating Income:			
Casualty			
Commercial	**$ 151**	$ 119	$ 95
Personal	**22**	46	29
Other (principally unallocable investment income)	**72**	65	61
Life and Health—Group	**9**	12	5
—Other	**43**	17	15
Finance	**107**	90	57
	$ 404	$ 349	$ 262
Identifiable Assets:			
Casualty	**$ 6,438**	$ 5,784	$4,938
Life and Health	**3,570**	2,828	2,347
Finance	**3,314**	2,685	2,039
	$13,322	$11,297	$9,324

Net income attributable to United States operations accounted for approximately 84%, 84% and 86% of income for 1979, 1978 and 1977, respectively.

Net assets employed in the United States amounted to $1.751 billion, $1.587 billion and $1.351 billion at December 31, 1979, 1978 and 1977, respectively.

Leases and Rentals

At December 31, 1979, minimum rental commitments under noncancelable operating leases were $33,612,000, $28,705,000, $22,874,000, $16,843,000 and $11,284,000 for 1980, 1981, 1982, 1983 and 1984, respectively. For remaining years, such commitments amounted to $35,862,000, aggregating total minimum lease payments of $149,180,000.

Rental expense for all operating leases was $49,591,000 and $42,013,000 in 1979 and 1978, respectively. Contingent and sublease rentals were not material in either year.

Commitments and Contingencies

The insurance and finance subsidiaries are involved in various legal actions, some of which involve claims for substantial amounts. The ultimate liability with respect to such lawsuits as well as other contingencies is not considered to be material in relation to the combined financial position.

Auditors' Report

ARTHUR ANDERSEN & CO.

To the Stockholders of
International Telephone and Telegraph Corporation:

We have examined the consolidated financial statements of International Telephone and Telegraph Corporation (a Delaware corporation) and subsidiaries consolidated as of December 31, 1979 and 1978, as set forth on pages 29 through 44 of this report. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries included in the accompanying statements of International Telephone and Telegraph Corporation and subsidiaries consolidated which represent approximately 10% of consolidated assets and sales and revenues. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these companies, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the aforementioned consolidated financial statements present fairly the financial position of International Telephone and Telegraph Corporation and subsidiaries consolidated as of December 31, 1979 and 1978, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y.,
February 28, 1980.

Arthur Andersen & Co.

Market Prices and Dividends on ITT Stock

In Dollars	Three Months Ended							
	March 31		June 30		Sept. 30		Dec. 31	
1979	High	Low	High	Low	High	Low	High	Low
Common Stock	30.88	27.00	29.63	27.38	30.88	27.50	28.38	24.25
Cumulative Preferred Stock								
$4.00 Convertible Series H (1.8433)	55.50	48.13	53.25	49.50	54.50	50.00	50.63	45.00
$4.50 Convertible Series I (1.6622)	53.25	47.88	51.50	48.50	53.25	49.75	50.00	43.00
$4.00 Convertible Series J (1.6518)	51.00	45.25	48.75	45.75	51.00	46.25	46.75	40.50
$4.00 Convertible Series K (1.5876)	50.00	44.13	48.00	44.13	50.00	45.25	45.63	39.50
$2.25 Convertible Series N (1.2560)	38.25	33.75	36.50	34.38	38.25	34.25	35.25	30.63
$5.00 Convertible Series O (1.4233)	54.50	50.13	54.50	51.63	56.50	52.50	53.50	45.75
1978								
Common Stock	31.88	26.75	32.75	27.88	34.38	29.63	32.88	26.38
Cumulative Preferred Stock								
$4.00 Convertible Series H (1.8182)	57.50	50.75	58.88	51.50	61.25	54.00	59.25	47.50
$4.50 Convertible Series I (1.6393)	56.50	52.00	58.75	53.00	58.75	54.25	57.13	47.50
$4.00 Convertible Series J (1.6260)	53.75	48.00	55.00	49.25	56.75	50.75	53.75	44.75
$4.00 Convertible Series K (1.5625)	52.50	47.63	55.00	47.88	55.63	50.25	53.50	44.00
$2.25 Convertible Series N (1.2560)	39.25	33.00	40.00	34.38	41.75	37.00	40.25	32.75
$5.00 Convertible Series O (1.4085)	60.63	56.13	58.88	56.25	61.50	57.00	59.50	49.75

The above table reflects the range of market prices of ITT Common and Cumulative Preferred Stock. The New York Stock Exchange is the principal market in which these securities are traded.

During the two month period ended February 29, 1980, the high and low price of the ITT Common Stock was $29.38 and $25.13, respectively. Dividends paid per common share were $.55 and $.50 in each of the four quarters of 1979 and 1978, respectively.

Quarterly dividends paid per share on each of the Cumulative Preferred Stock issues are equivalent to one fourth of the annual dividends indicated in the description of the issues. Each preferred share is convertible into the number of shares of common stock of the Corporation indicated in parenthesis above. The 1979 tabulation reflects the adjusted rates as of January 1, 1980.

ITT stock is listed on the following exchanges:

Common: Antwerp, Basle, Berne, Brussels, Frankfurt, Geneva, Lausanne, London, New York, Pacific, Paris, Tokyo, Vienna, Zurich.

Preferred: All issues are traded on a listed basis on the New York Stock Exchange. ITT Series N is also traded on a listed basis on the Pacific Stock Exchange, San Francisco.

Summary of Earnings

Amounts in millions except per share		1979	1978	1977	1976	1975
Results for Year	Sales and Revenues	$17,197	$15,261	$13,183	$11,810	$11,402
	Costs and Expenses	15,994	14,149	12,204	10,916	10,459
	Operating Income	1,203	1,112	979	894	943
	Equity in Earnings (after tax) of Insurance and Finance Subsidiaries	349	300	239	193	104
		1,552	1,412	1,218	1,087	1,047
	Provision for close-down of Canadian pulp mill	(320)	—	—	—	—
	Interest expense	(520)	(413)	(373)	(322)	(350)
	Interest and dividend income	66	60	66	44	57
	Miscellaneous income (expense)—net	(202)	(53)	8	6	2
	United States and foreign income taxes	(161)	(314)	(342)	(312)	(335)
	Minority common stockholders' equity in net income	(34)	(30)	(13)	(14)	(17)
	Income before Extraordinary Items	381	662	564	489	404
	Extraordinary items (after tax)	—	—	(12)	6	—
	Net Income	381	662	552	495	404
	Dividend requirement on preferred stock	(72)	(75)	(86)	(69)	(68)
	Preferred dividends and interest (after tax) on common stock equivalents	57	72	84	66	64
	Net Income Applicable to Common Equivalent Shares	$ 366	$ 659	$ 550	$ 492	$ 400
	Average Common Equivalent Shares Outstanding	138	141	140	132	132
Earnings Per Share	Common Equivalent Basis—					
	Income before extraordinary items	$2.65	$4.66	$4.00	$3.68	$3.03
	Extraordinary items	—	—	(.08)	.05	—
	Net income	$2.65	$4.66	$3.92	$3.73	$3.03
	Fully Diluted Basis—					
	Income before extraordinary items	$2.59	$4.49	$3.87	$3.57	$2.96
	Extraordinary items	—	—	(.08)	.04	—
	Net income	$2.59	$4.49	$3.79	$3.61	$2.96
Significant Ratios*	Return on Sales	1.9%	3.6%	3.4%	3.4%	3.0%
	Return on Assets	1.7%	3.2%	3.0%	2.9%	2.6%
	Return on Total Capital	6.7%	8.8%	8.3%	7.8%	7.1%
	Return on Stockholders' Equity	6.8%	12.4%	11.6%	11.0%	9.6%
	Assets to Sales	113%	112%	113%	114%	115%
	Book Value per Share	$34.28	$33.87	$30.73	$30.42	$27.63

*Including insurance and finance activities. Reference is made to the Financial Summary-Profitability for a comparison of 1979 and 1978 ratios excluding the provision for close-down of a Canadian pulp mill.

Reference is made to the Financial Summary (page 26) for discussion of the above Summary of Earnings.
International Telephone and Telegraph Corporation and Subsidiaries Consolidated

As reported in the ITT Annual Reports for the respective years

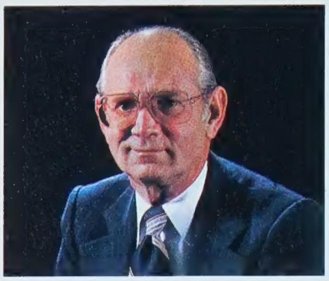
Summary Data

Dollar amounts in millions except per share	**1979**	1978	1977	1976	1975	1974	1973	1972	1971	1970
Results for Year										
Sales and Revenues	**$17,197**	15,261	13,146	11,764	11,368	11,154	10,183	8,557	7,346	6,364
Insurance and Finance Revenues	**$ 4,799**	4,138	3,542	3,082	2,830	2,843	2,795	2,408	1,968	1,555
Taxes—total	**$ 1,776**	1,733	1,540	1,337	1,297	1,271	1,093	851	721	601
Income before Extraordinary Items*	**$ 381**	662	562	489	398	451	521	477	407	353
Per common equivalent share	**$ 2.65**	4.66	4.14	3.95	3.20	3.63	4.17	3.80	3.45	3.17
Return on stockholders' equity	**6.8%**	12.4%	11.5%	11.1%	9.5%	11.2%	13.9%	13.7%	13.3%	13.0%
Dividends Declared per Common Share	**$ 2.25**	2.05	1.82	1.64	1.54	1.46	1.32	1.20¼	1.16	1.07½
Gross Plant Additions	**$ 1,049**	941	815	637	540	831	869	729	666	625
Depreciation	**$ 472**	439	369	319	298	302	300	273	238	216
R & D Expenditures	**$ 959**	799	608	525	483	452	400	328	288	257
Year-End Position										
Net Current Assets	**$ 2,008**	1,935	1,741	1,718	1,496	1,195	1,223	1,324	1,247	926
Plant, Property and Equipment (net)	**$ 5,210**	5,130	4,629	3,979	3,768	3,708	3,873	3,464	3,025	2,782
Total Assets	**$26,178**	23,342	19,896	17,531	16,248	16,186	15,460	12,988	11,210	9,633
Long-term Debt:										
Consolidated	**$ 2,964**	2,872	2,350	2,295	2,172	2,000	2,107	1,910	1,741	1,459
Insurance and finance	**$ 1,397**	1,160	934	787	639	439	422	334	255	191
Stockholders' Equity	**$ 5,621**	5,507	5,141	4,574	4,252	4,134	3,897	3,620	3,221	2,824
Per Common Share	**$ 34.28**	33.87	32.21	33.03	29.94	28.64	26.70	23.89	20.89	18.08
Year-End Statistics										
Common Shares Outstanding (000,000)	**116**	112	104	94	94	94	95	96	75	68
Stockholders (000)	**219**	223	226	228	238	237	223	218	236	239
Employees (000)	**368**	379	375	375	376	409	438	428	398	392
Orders on Hand (Manufacturing)	**$ 7,733**	6,557	5,581	5,038	4,987	4,855	4,136	3,224	2,797	2,160

*Extraordinary gains (losses) in 1977, 1976, 1973, 1972 and 1971 amounted to $(12) million, $6 million, $7 million, $7 million and $(70) million, respectively.

Directors

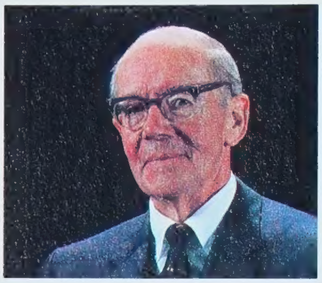
Rand V. Araskog[1,5,7]
Chairman, President
and Chief Executive, ITT



Richard E. Bennett
Senior Executive Vice President, ITT

Raymond L. Brittenham
Senior Vice President-
Law and Counsel, ITT

Anthony J. A. Bryan[1,3,5]
Chairman and President,
Copperweld Corporation



Pomeroy Day[1,2,4]
Business consultant

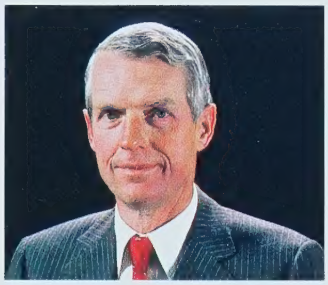
Francis J. Dunleavy[1,5]
Corporate director
and private investor

William Elfers[1,3,5]
Corporate director
and trustee

Alvin E. Friedman[1,2,3,5]
Managing Director, Lehman Brothers
Kuhn Loeb Incorporated,
investment bankers

Harold S. Geneen[1,5,6,7]
Chairman Emeritus, ITT
Management consultant,
private investor

Earl G. Graves[1,2,5,7]
President and Chief Executive Officer
of publishing and
broadcasting companies



Frederic C. Hamilton[1,5]
Chairman and Chief Executive Officer,
Hamilton Brothers Oil Company,
international petroleum operations

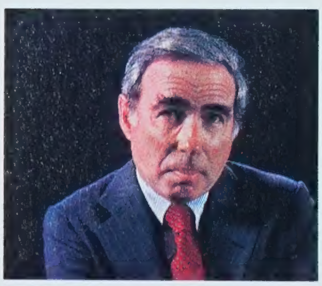
Thomas W. Keesee, Jr.[1,2,3,4,6,7]
Corporate director and
financial consultant

Herbert C. Knortz
Executive Vice President
and Comptroller, ITT

J. Patrick Lannan[1,5]
Financial consultant

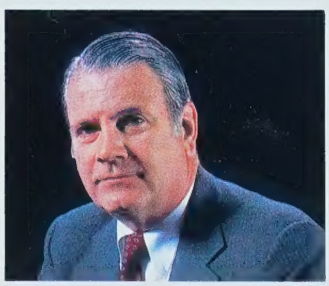
James V. Lester
Senior Executive Vice President, ITT

Richard S. Perkins[1,3,5,6]
Trustee and corporate director



Felix G. Rohatyn[1]
General partner, Lazard Frères & Co.,
investment bankers

Terry Sanford[1,4,6,7]
President, Duke University



M. Cabell Woodward, Jr.
Executive Vice President and
Chief Financial Officer, ITT

[1] Member of Executive and Policy Committee
[2] Member of Audit Committee
[3] Member of Compensation and Personnel Committee
[4] Member of Legal Affairs Committee
[5] Member of Capital Committee
[6] Member of Nominating Committee
[7] Member of Public Affairs Committee

Officers

Rand V. Araskog[8,9]
Chairman, President
and Chief Executive

Richard E. Bennett[9]
Senior Executive
Vice President

James V. Lester[9]
Senior Executive
Vice President

Harold S. Geneen
Chairman Emeritus

Francis J. Dunleavy
Vice Chairman (retired)

Herbert C. Knortz[8,9]
Executive Vice President
and Comptroller

Stanley Luke
Executive Vice President-
Business Development

M. Cabell Woodward, Jr.[8,9]
Executive Vice President and
Chief Financial Officer

Howard J. Aibel[8,9]
Senior Vice President
and General Counsel

Frank P. Barnes
Senior Vice President (retired)

Raymond L. Brittenham[8]
Senior Vice President-
Law and Counsel

Albert E. Cookson[9]
Senior Vice President and
General Technical Director

Edward J. Gerrity, Jr.[8,9]
Senior Vice President-
Corporate Relations
and Advertising

John W. Guilfoyle
Senior Vice President
and President, ITT Europe, Inc.

John Hanway, II[8,9]
Senior Vice President-
Administration

John P. Pfann
Senior Vice President
and Treasurer

Robert H. Smith
Senior Vice President-
Corporate Development

John J. Chluski
Senior Vice President-
Group Executive-Engineered
Products—Europe

Robert E. Laws
Senior Vice President-
Group Executive—Consumer
and Industrial Finance Operations

Gerard L. Seelig
Senior Vice President-
Group Executive-Engineered
Products—North America

John J. Navin
Vice President and
Secretary

[8] Member of Public Affairs Committee [9] Member of Management Policy Committee

Vice Presidents

Raymond H. Alleman
Robert H. Allen
Merlin L. Alper
George A. Banino
Richard G. Bateson
Jules Berke
Robert J. Braverman
Joseph L. Bumbery
William W. Crossman
Donald R. Ealy
Steward S. Flaschen
John J. Foley
William H. Forster
Stanley Friedman
Michael J. Ganz
Frederick W. Gibbs
Raymond J. Gill
Charles N. Goldman
Harry R. Gudenberg
Samuel H. Hellenbrand
Charles A. Johnson
Martin E. Karp
George F. Knapp
Thomas F. Krauter
John L. Lowden
Daniel F. Lundy
Leonard B. Mackey
Ernest H. Manuel
Edward J. McGrath
James I. Nixon
Robert L. Olson
Ralph W. Pausig
Keith M. Perkins
James A. Purdy
Leslie J. Racey
John C. Reynolds
Edmund J. Schaffer
James R. Sexton
Charles M. Silver
Herbert A. Steinke, Jr.
Douglas Stevenson
James L. von Harz
Robert M. Waite
Daniel P. Weadock
Arthur T. Woerthwein
Humberto Zavaleta

Registrars for Common Stock
Citibank, N.A.
New York, N.Y. 10015

Harris Trust and Savings Bank
Chicago, Ill. 60690

Citibank, N.A.
Frankfurt-am-Main, Germany

Registrar for Cumulative Preferred Stock
Citibank, N.A.
New York, N.Y. 10015

Trustee and Registrar for 4.90% Sinking Fund Debentures
Morgan Guaranty Trust Company of
New York, New York, N.Y. 10015

Transfer Agents for Common Stock
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320 Park Avenue
New York, N.Y. 10022

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Ill. 60690

Dresdner Bank AG
Frankfurt-am-Main, Germany

Transfer Agent for Cumulative Preferred Stock
Office of the Corporation
320 Park Avenue
New York, N.Y. 10022

Trustee and Registrar for 8.90% Sinking Fund Debentures
Bankers Trust Company
New York, N.Y. 10015

Trustee and Registrar for 4.75% Convertible Subordinated Debentures and 8⅝% Convertible Subordinated Debentures
The Chase Manhattan Bank, N.A.
New York, N.Y. 10015

Trustee and Registrar for 11% Notes
Manufacturers Hanover Trust
Company, New York, N.Y. 10015

Trustee and Registrar for 9⅛% Notes and 10% Sinking Fund Debentures
Chemical Bank
New York, N.Y. 10015

Trustee and Registrar for 12⅝% Debentures
Harris Trust and Savings Bank
Chicago, Ill. 60690

Agent for French Franc Obligations Due 1988
Banque Nationale de Paris
Paris, France

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